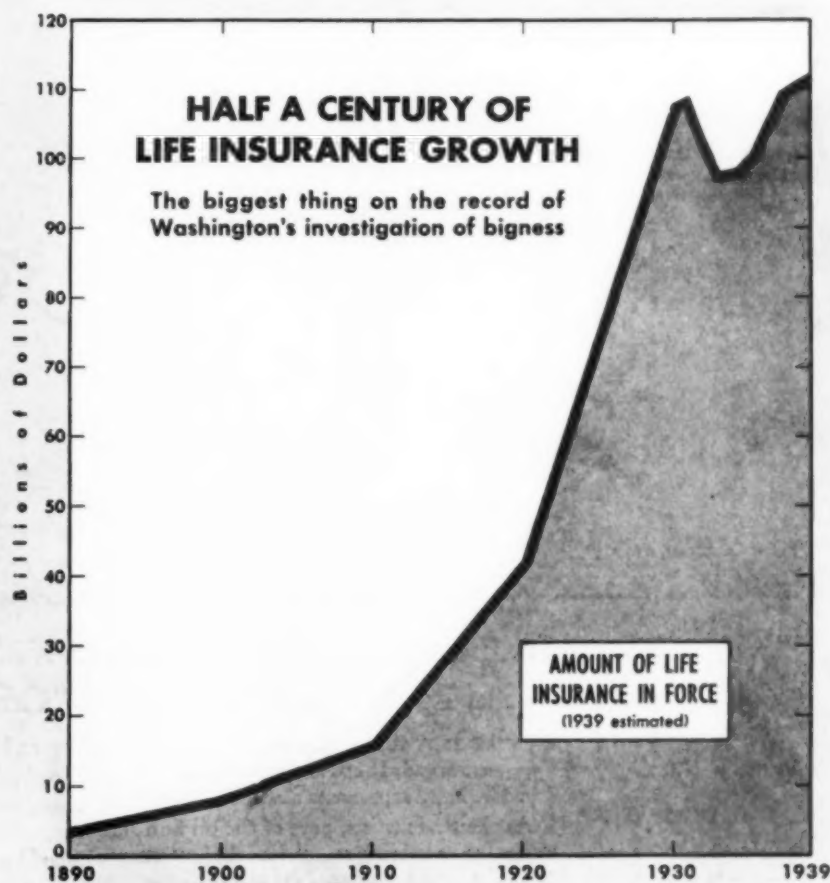


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# BUSINESS WEEK

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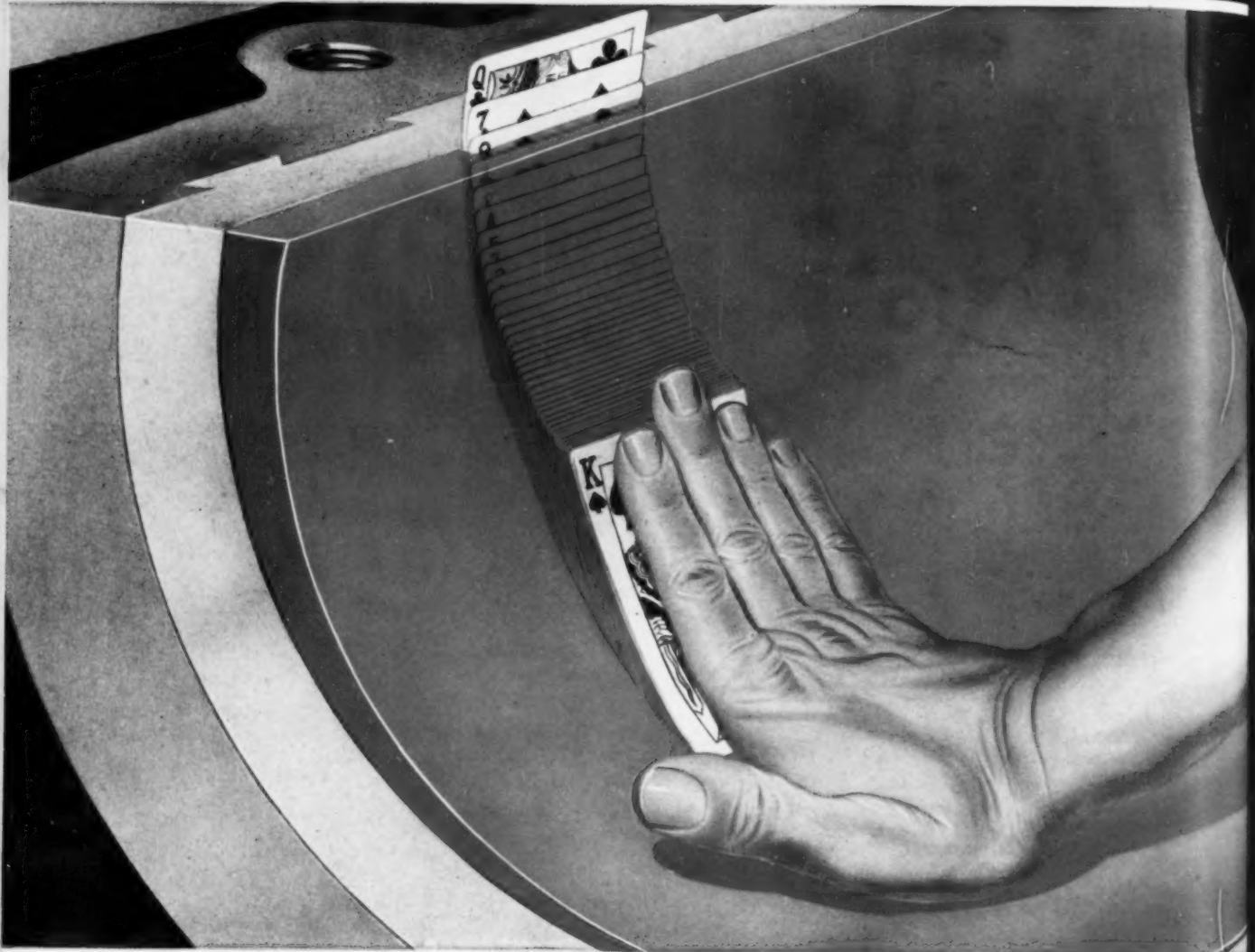
© BUSINESS WEEK

"Life Insurance — and TNEC": A Report to Executives

NESS  
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# SLIDE...SLIDE...SLIDE!

THAT'S WHAT HAPPENS INSIDE AN OIL FILM



In spite of heat and constant circulation, Socony-Vacuum oils continuously provide a protective film on steam turbine bearings.

## Reducing the Internal Friction Within an Oil Film is a Vital Part of Socony-Vacuum "Correct Lubrication"

**T**HAT RED SECTION above is an oil film—enlarged. It coats a machine bearing. The hand represents a shaft.

As the shaft turns, part of the oil film sticks to the bearing metal, like the Queen of Clubs in the picture. Part sticks to the shaft, like the King of Spades.

Sliding friction is absorbed by *middle*

*oil layers*, like middle cards in the deck.

Developing oils to maintain minimum friction, and yet prevent metallic contact

—that's a *Science*...pioneered and developed by Socony-Vacuum Engineers.

SOCONY-VACUUM OIL CO., INC. — Standard Oil of N.Y. Div. White Star Div. Lubrite Div. Chicago Div. White Eagle Div. Wadhams Div. Magnolia Petroleum Co. General Petroleum Corporation of California.

CALL IN SOCONY-VACUUM FOR  
*Correct Lubrication*



YOU'LL BENEFIT FROM THE  
WORLD'S GREATEST  
LUBRICATION EXPERIENCE

## STENO These

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Why not acq  
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# Help your Secretary to be more Your Executive Assistant

... taking care of details ... "fronting" for you ... anticipating your instructions ... saving your valuable time and judgment for more important matters—the things you are really paid to handle.

But—she hasn't time to be this kind of a secretary, IF—her whole day is occupied with the taking and transcribing of dictation—her position merely that of a glorified stenographer. And this is where Stenotypy is proving its worth in thousands of progressive executive offices, for Stenotypy liberates your secretary from the drudgery of stenographic work by—

## Giving Her The Ability To ...

- ... take your dictation in less time—permitting you to talk as fast as you like, leaving you more time for those affairs requiring executive judgment, the making of right decisions;
- ... read her notes as easily and as rapidly as she does print ... speeding up transcription ... saving her time and yours ... increasing your office output per pay roll dollar;
- ... take notes that can be read by any other Stenotypist ... allowing her to take while another transcribes her notes ... permitting you to dictate a peak load while the subject matter is fresh. This interchangeability of notes is also a life saver in your secretary's absence;
- ... report your conferences and sales meetings without the necessity of employing outside reporters ... an advantage which has proved invaluable during these times of committee hearings and intergroup conferences.
- ... devote more of her time to the handling of important details for you.

Your present secretary—as well as members of your stenographic staff—can learn Stenotypy quickly, easily, inexpensively, in spare time.

Encourage your secretary to do a bigger, better job by acquainting yourself and her with these advantages and what they will do for *her* work—and for *yours*. Ask your local business college, or us, for full details.

## STENOTYPY Gives You These Added Advantages

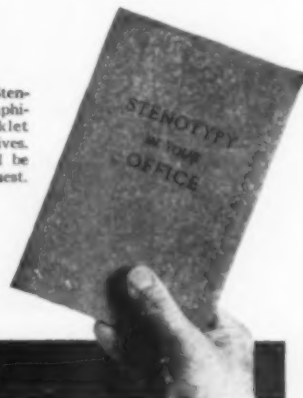
- Lowers the cost of your stenographic work—because a lower-priced typist (trained to read Stenotype notes) can do your transcribing.
- You can dictate as easily and rapidly as you talk, so your letters are better, more spontaneous.
- Does not tire your secretary—leaves her fresh and vigorous for other duties.
- Reports of confidential conferences can be filed for future reference, as Stenotype notes can be read by *any* Stenotypist as long as the paper tape on which they are written lasts.

## To the Thinking Secretary:

Why not acquire the advantages Stenotypy will give you? Read the details of these advantages in our FREE booklet—"Advantages to You in Stenotypy."

## Executives

The advantages to you of Stenotypy in your office are graphically presented in a booklet written especially for executives. A complimentary copy will be sent you promptly on request.



Department 338ST

# The Stenotype Company

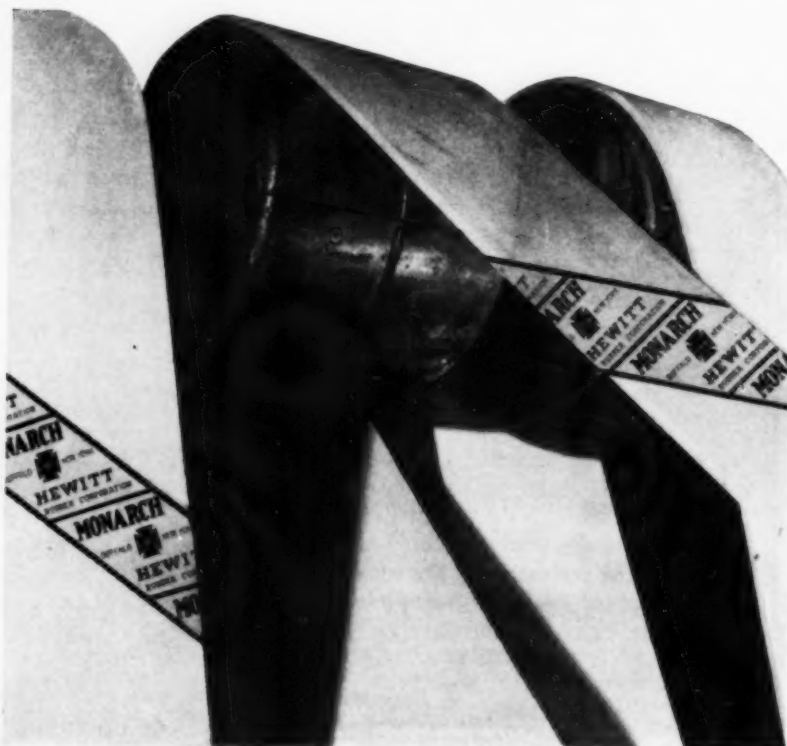
4101 South Michigan Avenue • Chicago, Illinois

Tested and Approved by Thousands of Executives

# KEEP COSTS DOWN

**YOU'LL FIND HEWITT BELTS  
STAY IN SERVICE LONGER**

● With HEWITT transmission belt on the job, you can depend on holding down operating costs. Longer service is built into every length of HEWITT belt. Unusual flexing stamina, which eliminates ply separation, and truer running performance are cost cutting features that go with HEWITT. And, for the particular conditions of your service, there are special compound and construction advantages, put there by the finest workmen in the rubber industry. Talk over lower belt costs with your HEWITT distributor. For your convenience he is listed in the classified telephone directory of any industrial center under "Rubber Goods" or "Belting".



# HEWITT

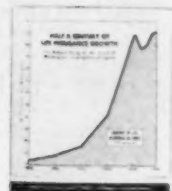
**RUBBER CORPORATION, BUFFALO, N. Y.**

HOSE • CONVEYOR AND TRANSMISSION BELTS • PACKING

## THIS BUSINESS WEEK



### BUSINESS WEEK



The chart on this week's cover, showing the amount of life insurance now in force, is an indication not only of the growth of life insurance in the last 25 years, but also of public confidence in life insurance. In Washington, however, where the Temporary National Economic Committee has been sporadically but firmly investigating the life insurance business, that public confidence has had little chance to find reflection. The TNEC record is crammed with criticisms of the business. When the TNEC is ready to submit its report to Congress everything will be set for some Congressman to devise legislation for federal regulation of insurance, with the record to back him up. On pages 49-60 this week BUSINESS WEEK reports to executives on the subject, "Life Insurance and TNEC," in which the long drawn-out TNEC hearings have been boiled down to show what the boys in Washington have in mind as regard to the ultimate regulation of life insurance, and what lies behind the record in the form of the real achievement of the life insurance business.

### Besides

NO CHANGES in the Wagner Act at this session of Congress. Why—page 15. . . Fourteen years ago the first sandpaper was produced "coated by artificial lighting." Now velvet is being made the same way—"Velvet from Static," page 40.

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A McGRAW-HILL



PUBLICATION

IS THIS THE PLUMBER?  
CAN YOU COME RIGHT OVER?

## When you're in a spot, depend on your Western Electric telephone



In an emergency, just as in ordinary needs, the telephone stands by you. The care and skill of Western Electric workers is one important reason why your voice goes through quickly and clearly.



When you dial a call you may be using equipment which this Western Electric girl helped to make. She knows that unless her work is right, the telephone plant will not respond to your call.



Your voice is important to this man, as he skilfully forms a 5,310-wire switchboard cable. This attitude guides work in all our responsibilities—purchasing, manufacturing, distributing for the Bell System.

# Western Electric

... made your  
BELL TELEPHONE

## "YOU MUST THINK I'M A WORLD ALMANAC"

THE Sales Meeting was discussing the addition of more dealers upstate.

"You must think I'm a World Almanac," exclaimed the Sales Manager. "Here I am in New York. That proposed dealer is in Buffalo. I need more local information about him before we give him that territory."

"I can get it," said the Treasurer. "Let me call..."

Next day the Sales Manager entered a Buffalo bank. After an hour's visit he thanked the banker and said, "With this information we should get off to a good start here. You certainly saved us a lot of time."

This New York company obtained exactly the kind of data it wanted on Buffalo because it is a customer of ours—and because there is also a Marine Midland bank in Buffalo.

There are Marine Midland banks in 34 other trading centers in New York State. These banks and their familiarity with local communities can save your business time and money throughout New York State—the world's richest market.



THE  
MARINE MIDLAND  
TRUST COMPANY OF NEW YORK  
120 Broadway

At the Gateway to New York State, the  
World's Richest Market

Member Federal Deposit Insurance Corporation

## NEW BUSINESS

### Our Times

THE GOLDEN GATE International Exposition may have cost its creditors \$5,000,000 (BW—Nov 25 '39, p32), but statistics released this week by Californians, Inc., show that tourists spent \$28,000,000 more in and around San Francisco in 1939 than in the preceding year... National Small Homes Demonstration, off-spring of the National Lumber Manufacturers Associated and affiliated building groups, is giving prospective home owners a choice of two small homes available on payments ranging between 50¢ and \$1 a day. Houses are engineered for utility and economy.

Five firms—Charles Bruning Co., Inc., Fuchs & Lang Mfg. Co., General Drafting Co., Inc., The Composing Room, Inc., and The National Process Co., Inc., all of New York City—offered their services free to the Finnish Relief Fund, Inc., to produce a map of Finland that is being sold for 50¢ a copy. Entire proceeds go to the relief fund.

### By the Calendar

FOR THE FIRST TIME in ten years, Sears, Roebuck & Co. last week reported its sales for a calendar month instead of for a four-week period. Editorials promptly hailed this as a major set-back for calendar reform and the 13-month year, of which other prominent business devotees are Eastman Kodak Co., Loew's, Inc., and Kroger Grocery & Baking Co. Actually Sears has not abandoned the 13-month calendar for internal use, is merely saving wear and tear on its executives' tempers. The official explanation of reversion to the calendar month for publicly reporting sales is that this "makes the company's figures more comparable with other companies."

The lowdown is that President T. J. Carney and other top officers have been exasperated a dozen times a year by careless financial writers laying a Sears' four-week sales figure alongside Montgomery Ward & Co.'s figure for a calendar month, thus giving Sears the dirty end of the statistic.

### Your License Is Good

EVER SINCE 11 Western railroads announced automobile rental service for their passengers (BW — Feb 10 '40, p19) skeptics have been wondering what would happen to a driver caught with a car having license plates other than those of the state which issued his driver's license. Railway Extension, Inc., operator of the service, says the worriers can relax. It has checked every state in which it plans to do business, finds that any driver is on sound legal ground in renting its cars.

Several Eastern states, all of them

outside of present train-auto service territory, used to make out-of-staters take out licenses before they could lawfully drive a borrowed or rented car. Now according to American Automobile Association information, every state recognizes every other state's legally qualified drivers.

### Match Companies Play Ball

TWO OUT-OF-STATE match companies have promised the Iowa insurance department they will no longer ship paper match folders into Iowa carrying advertisements for companies not licensed to operate in the Hawkeye state. Distribution of the folders, some of which announced "\$1,000 life insurance policy mailed free—\$1 a month, ½ regular rate for the first five years," represented one phase of the problem of regulating interstate sale of life insurance by firms not licensed for business in all the states they try to cover.

### Television's Progress

LAST TUESDAY, RCA Victor made television history by reducing prices on home receivers more than 30% and making refunds, equal to the difference between old and new prices, to customers and dealers. New prices will be the same as those tried out in Newburgh, N. Y., last fall (BW—Nov 25 '39, p20) with a \$600 set going for \$395, and other



prices correspondingly reduced. Promotion will include newspaper ads, home demonstrations, and radio (including television) plugs. To get at the lower-income market RCA has an easy-purchase plan—10% down, 18 months to pay. In the past two weeks, NBC, RCA's operating subsidiary, made television history by presenting parts of "Pagliacci" and a full-length Broadway play—two firsts for the iconoscope.

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# WASHINGTON BULLETIN

WASHINGTON (Business Week Bureau)

—Sparks are flying as Congress sticks a finger into the machinery with which the Administration is using aircraft production as a major instrument of foreign policy. Curiosity was aroused by the Army and Navy control board's release for export of the Curtiss P-40 pursuit planes, and now both House and Senate have set out to discover what's going on. If the Congressmen get past superficial frictions between Army, Treasury, and the industry, they will find a well-coordinated policy built around three objectives:

(1) Help the Allies win the war by providing them with 2,000 to 3,000 planes a month by end of 1940.

(2) Make the Allies pay for the creation in this country of the biggest aircraft production plant in the world—a plant which will ultimately give this country a terrific leverage in questions of war and peace.

(3) Maintain the superiority of our own air force by requiring essential priority on U. S. orders and holding back our most advance models except to the extent necessary: (a) to prevent the Allies being outclassed by the Germans; and (b) to keep the Allies from looking to other sources—Italy or the new Canadian industry—for airplanes.

## Tripartite Job

MORGENTHAU LOOKS AFTER POINT No. 1, seeing that fiscal policy puts no obstacles on expansion and trying to adjust such internal problems as engine shortage. The Army keeps a watchful eye on point No. 3. And the self-interest of manufacturers is enforcing point No. 2.

According to figures circulated by the Administration, the aircraft engine industry has, since the Neutrality Act was signed last Nov. 4, expanded its floor space from 1,872,000 to 3,103,000 sq. ft., and a total of 4,150,000 is projected. Engine production is reported to have reached a rate of 19,280 per year as compared to 7,270 last November and a projected rate of 29,280.

## What About Plane Costs?

IMMEDIATE POINT OF CONGRESSIONAL curiosity, in addition to the government's export policy, is whether foreign purchases are increasing cost of our own aircraft buying; significantly, the Army recently asked for more money because its planes cost more than expected.

The Administration and the industry insist this doesn't indicate actual higher costs—that mass-production is lowering costs. They press the point that, on the basis of experiment and observation in Europe, the Army keeps asking for better, more expensive, ships.

## A Hitch in the Gift

RELEASE of the P-40 pursuit plane merely gives Curtiss the right to accept orders, but its capacity on this type is booked up for at least a year on U. S. Army orders.

Even if the foreigners want to pay for new capacity, engines will offer a difficulty. Allison, which makes the liquid-cooled motors whose streamlining contributes to the speed of the P-40 plane, is already several months behind on deliveries.

## Still a Spender, But—

LIVELY DISCUSSION at the White House in the last few days reveals that the President still favors a lend-lease operation,

## New Light on an Old Master



*This new Pan American commemorative postage stamp, to be issued in connection with the 50th anniversary of the founding of the Pan American Union, will go on sale in Washington, April 14. The subject of the stamp—a reproduction of "Spring" by the 15th century Italian painter, Botticelli—may not look particularly Pan American, but the Post Office Department says that the Three Graces with clasped hands typify the bonds of friendship and good will that exist among the countries of North, South and Central America.*

outside the budget, if business continues to sag, but is opposed to more outright grants of government money. Up for consideration were the future activities of the Federal Works Agency, whose rate of disbursement on its present programs, now \$248,000,000 a month, will drop to \$188,000,000 by December.

## Mead Has a Plan

STRAW IN THE WIND (which Federal Works Administrator Carmody hopes will breathe new life into PWA) is the proposal of Senator Mead to make \$30,000,000 available for long-term loans for hospital, water and sewerage construction—projects which constituted about 20% of PWA's 1938 program.

Senator Wagner is willing to combine this with the proposed \$10,000,000 hospital construction plan and will hear testimony on both at hearings next Monday before the Senate Labor Committee.

The only exception that the President makes to shutting off direct grants of cash is this modest subsidy for the construction of small hospitals in localities where such facilities don't meet present needs.

## Other Schemes Opposed

CONGRESS HAS SHOWN LITTLE INTEREST in Roosevelt's hospital plan to date, but Congressmen who have approached the President on other schemes involving further grants to states have quickly learned that he will oppose any new legislation along this line.

This opposition accounts for the change by the House in the water-pollution abatement bill by which RFC loans are substituted for Treasury grants. Roosevelt warned committee members, at a conference, that he would veto the bill if it reached him with the provision for federal grants included.

## WPA to Test Economy

RELIEF IS, OF COURSE, in a separate category. WPA's situation soon will put the economy policy to the test again. As predicted, the Senate Appropriations Committee blithely flunked one test this week by raising the farm bill \$309,000,000 over the House figure to a total of \$1,022,000,000. This includes \$212,000,000 for parity payments. In the face of increasing unemployment, the WPA rolls must be cut from 2,300,000 to 1,500,000 by June 30 in order to make this year's \$1,500,000,000 appropriation last.

## Farm-City Deal Shapes Up

IT IS BECOMING extremely dubious whether the White House will insist on cutting WPA funds to \$1,000,000,000 for the next fiscal year, as tentatively proposed in Roosevelt's budget, and whether

# 12-STORY APARTMENT BUILDING CUTS COAL COSTS \$276 IN YEAR

Comfort in Any Weather Assured  
by Installing Webster Hylö  
Steam Heating System

STEAM WASTE CUT TO MINIMUM

Radiators Are Partially Filled  
With Steam in Mild Weather  
to Prevent Overheating

BETTER HEATING FOR TENANTS

Baltimore, Md.—In the 12-story Mt. Vernon Place Apartments, the cost of coal for heating was reduced \$276.51 during the first season with a Webster Hylö System of Steam Heating.

The Webster Hylö System provides a throttling type of control which reduces heat loss to a minimum and assures comfort for tenants in every section of this modern apartment building.

During periods of mild weather, radiators are partially filled with steam. When the outdoor temperature falls, a simple adjustment of the Webster Hylö Variator automatically changes the steam supply so that each radiator receives the proper amount of heat for comfortable indoor temperatures through accurately sized metering orifices.



Mt. Vernon Place Apts.,  
Baltimore, Md.

W. Burton Guy, Manager of the Mt. Vernon Place Apartments, authorized the Webster Heating Modernization Program in 1938 after observing the performance of Webster Steam Heating in another Baltimore apartment building.

"It has been my experience," Mr. Guy says, "that the installation of Webster System Equipment not only results in better heating for tenants but also allows the building owners to recover the cost of the modernization out of the steam savings effected."

In the Mt. Vernon Place Apartments, there is a total of 10,800 square feet of installed direct radiation. Steam is produced in a stoker-fired coal burning boiler plant.

## LOW HEATING COST

GET THIS BOOK... Read the fact stories about economy and comfort in the heating of 144 buildings. No exaggerated claims. No promises. Just 64 pages of heating results. Ask for "Performance Facts."

WARREN WEBSTER & CO., Camden, N. J.  
Pioneers of the Vacuum System of Steam Heating  
Representatives in 65 principal U. S. Cities—Est. 1889

Congress would accept the cut if Roosevelt pushed it.

As a matter of fact, moves are already being made in Congress to boost this figure. Farm bloc members, anxious to cinch things for the big farm bill, have talked matters over with urban members and an understanding is in the making. Exact figures that will be filled in await later developments.

### And What About Taxes?

REVIVAL OF TAX TALK at last Monday's regular conference between the President and legislative leaders was just talk, and brief talk at that. In view of the Senate committee's hike in the farm bill, the President asked what, if anything, had been done regarding his suggestion for taxes to meet "extraordinary" national defense appropriations. He was told other affairs had occupied the minds of Congressmen up to this time.

Roosevelt did not pursue the subject and the air was frigid on Capitol Hill when word reached there. ("What year is this?" grunted Senator Tom Connally of Texas, a member of the Finance Committee.)

The odds remain definitely against additional taxes this session. Nor is Congress concerned about the debt limit; it will not be reached in any event until after the new Congress meets next January.

### The Committee Objects

AN INFORMAL POLL of the House Judiciary Committee shows members four to one against any amendment of the Walsh-Healey Act this session. Members are wary of extending the law to all contracts for \$4,000 or more (the present minimum is \$10,000) at the very time the government is trying to interest small manufacturers in munitions orders.

The House group particularly dislikes a Senate amendment which would black list for three years any firm which a court had found guilty of violating an order of the National Labor Relations Board. This distaste harks back to the board's effort to ditch, without legal authority, contracts and loans to firms accused by it.

### Eastern Passenger Fares

DON'T ASSUME the Eastern Railroad's passenger-fare scrap is washed up once and for all. To meet threatened B.&O. competition, these carriers will continue their sliding-scale round-trip fare arrangement (down to a new low of 1.5¢ a mile), even though the Interstate Commerce Commission recently forced them to lower the maximum basic coach fare from 2½¢ to 2¢ a mile (BW—Feb 24, p. 19).

Incidentally, if the carriers should again ask the ICC to tilt the basic fares, they might be defeating their own ends by continuing the sliding scale. Experimenting with this reduced-fare arrange-

### Finlandia—Finale

THOUGH FINLAND has been knocked out, Export-Import Bank credit will remain at the shrunken little country's disposal—to aid in rehabilitation. Jesse Jones still says, "Finland's past record makes her a good financial risk." The Finns have drawn only between \$4,000,000 and \$5,000,000 of the \$30,000,000 authorized.

Little recrimination is voiced in Washington that the United States did not come to Finland's support more fully and quickly. Reaction to the "sorry peace" is that Britain and France have suffered another diplomatic defeat, and critics of the Administration's policy of oratorical intervention would also include the U. S.

Meanwhile, Washington officials were interested to note that International Nickel Co.'s important nickel mines near Petsamo, seized by Soviet troops at the start of the war, have apparently been left inside the new Finnish boundaries. They figure that Stalin was smart enough to realize that, with a thumb on Finland, Russia stands a better chance of getting the nickel if the mines are left undisturbed in the hands of present operators, able to get needed equipment from Allied countries, rather than disorganized by being taken over for state operation by inexperienced Russian engineers.

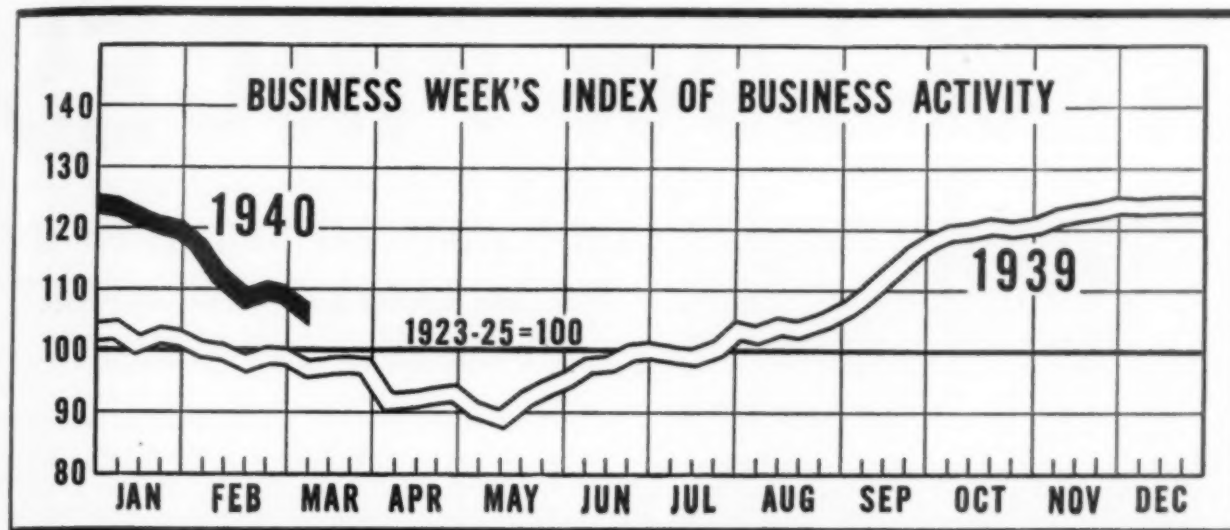
ment at the same time they were experimenting with the 2½¢ basic coach fare drew sharp ICC denunciation down upon their heads when they recently sought a continuation of the higher basic fare.

### Tussles over Ether

FREQUENCY MODULATION, which sponsors hope will revolutionize radio broadcasting, will claim the Federal Communications Commission's attention in hearings beginning Mar. 18. Several tussles for the scarce channels in the radio spectrum are in prospect. Backers of frequency modulation want some of the space allotted to television. They also hope to obtain use of some of the 25 channels in the educational band of 41,020 to 41,980 kilocycles by persuading school and college stations to utilize frequency modulation instead of the present amplitude modulation system.

A frequency modulation non-broadcasting project—the radio typewriter device invented by International Business Machines Corp.—will be depicted at FCC's hearings as holding promise as a future means of cheaper business communication.

## THE FIGURES OF THE WEEK



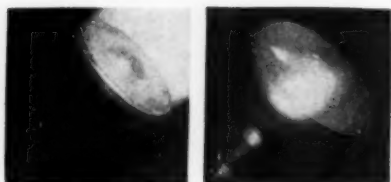
	Latest Week	Preceding Week	Month Ago	6 Months Ago	Year Ago
<b>THE INDEX</b> .....	*107.9	†110.2	113.6	110.8	98.7
<b>PRODUCTION</b>					
Steel Ingot Operations (% of capacity).....	64.7	64.6	68.8	70.2	55.7
Automobile Production.....	103,560	100,855	95,985	26,865	84,095
Engineering Construction Awards (Eng. News-Rec. 4-week daily av. in thousands).....	\$8,465	\$8,626	\$8,327	\$10,041	\$9,978
Electric Power Output (million kilowatt-hours).....	2,464	2,479	2,523	2,290	2,238
Crude Oil (daily average, 1,000 bbls.).....	3,829	3,798	3,688	3,229	3,353
Bituminous Coal (daily average, 1,000 tons).....	1,467	†1,548	1,698	1,353	1,415
<b>TRADE</b>					
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars).....	66	66	67	74	64
All Other Carloadings (daily average, 1,000 cars).....	38	39	43	47	35
Check Payments (outside N. Y. City, millions).....	\$4,675	\$3,983	\$4,335	\$3,833	\$3,886
Money in Circulation (Wednesday series, millions).....	\$7,491	\$7,439	\$7,403	\$7,261	\$6,751
Department Store Sales (change from same week of preceding year).....	+6%	+5%	+9%	+3%	+7%
<b>PRICES (Average for the week)</b>					
Spot Commodity Index (Moody's, Dec. 31, 1931=100).....	159.0	159.3	159.3	167.9	144.2
Iron and Steel Composite (Steel, ton).....	\$36.83	\$36.83	\$37.01	\$36.01	\$36.39
Scrap Steel Composite (Iron Age, ton).....	\$16.71	\$16.71	\$17.00	\$16.75	\$15.17
Copper (electrolytic, Connecticut Valley, lb.).....	11.500¢	11.500¢	11.250¢	12.000¢	11.250¢
Wheat (No. 2, hard winter, Kansas City, bu.).....	\$1.00	\$1.00	\$0.98	\$0.87	\$0.69
Sugar (raw, delivered New York, lb.).....	2.81¢	2.85¢	2.81¢	3.78¢	2.78¢
Cotton (middling ½", ten designated markets, lb.).....	10.52¢	10.61¢	10.63¢	9.17¢	8.76¢
Wool Tops (New York, lb.).....	\$1.060	\$1.055	\$1.054	\$1.075	\$0.859
Rubber (ribbed smoked sheets, New York, lb.).....	18.78¢	18.60¢	19.14¢	22.46¢	16.53¢
<b>FINANCE</b>					
Corporate Bond Yield (Standard Statistics, 45 issues).....	5.58%	5.63%	5.62%	5.94%	5.51%
U. S. Bond Yield (average of all issues due or callable after twelve years).....	2.28%	2.33%	2.32%	2.55%	2.35%
U. S. Treasury 3-to-5 year Note Yield.....	0.42%	0.43%	0.47%	1.18%	0.49%
Call Loans Renewal Rate, N. Y. Stock Exchange (daily average).....	1.00%	1.00%	1.00%	1.00%	1.00%
Prime Commercial Paper, 4-to-6 months, N. Y. City (prevailing rate).....	½-¾%	½-¾%	½-¾%	½-¾%	½-¾%
Business Failures (Dun & Bradstreet, number).....	280	270	251	209	286
<b>BANKING (Millions of dollars)</b>					
Demand Deposits Adjusted, reporting member banks.....	19,341	19,414	19,108	18,040	16,086
Total Loans and Investments, reporting member banks.....	23,355	23,268	23,199	22,389	21,788
Commercial and Agricultural Loans, reporting member banks.....	4,355	4,324	4,314	4,075	3,773
Securities Loans, reporting member banks.....	1,115	1,087	1,091	1,152	1,455
U. S. Gov't and Gov't Guaranteed Obligations Held, reporting member banks.....	11,300	11,272	11,321	10,731	10,206
Other Securities Held, reporting member banks.....	3,464	3,468	3,371	3,353	3,244
Excess Reserves, all member banks (Wednesday series).....	5,730	5,690	5,523	4,969	3,407
Total Federal Reserve Credit Outstanding (Wednesday series).....	2,515	2,537	2,518	2,643	2,565
<b>STOCK MARKET (Average for the week)</b>					
50 Industrials, Price Index (Standard Statistics).....	118.9	117.8	119.5	126.6	125.8
20 Railroads, Price Index (Standard Statistics).....	31.2	30.9	31.3	31.8	32.9
20 Utilities, Price Index (Standard Statistics).....	67.9	67.5	69.9	65.8	72.5
90 Stocks, Price Index (Standard Statistics).....	97.2	96.3	98.0	102.1	102.7
Volume of Trading, N. Y. Stock Exchange (daily average, 1,000 shares).....	703	†615	782	3,687	1,009

\* Preliminary, week ended March 9th. † Revised. @ Date for "Latest Week" on each series on request.

# General Electric Announces NEW LOW PRICES



G-E MAZDA Fluorescent lamps are recommended for use only with equipment providing good power factor. The lamp to the left in the above photo is the T-8 size which is 1" in diameter... the other is a T-12 size which is 1 1/2" in diameter.



G-E MAZDA Projector lamps (left) combine reflector, lens, and 150 watt filament in one sealed-in unit. G-E MAZDA Reflector lamps (right) are for indoor use. Both lamps come in Spot and Flood types.

**G-E MAZDA LAMPS**  
**GENERAL ELECTRIC**

YEAR BY YEAR, BETTER LAMPS FOR EVERY PURPOSE

## ON FLUORESCENT AND OTHER G-E MAZDA LAMPS OF IMPORTANCE TO BUSINESS AND INDUSTRY

EFFECTIVE March 1, 1940, General Electric announces new low prices on G-E MAZDA F (fluorescent) lamps. Greater demand for these lamps has brought increased production. The resulting manufacturing economies are passed on to customers in the form of new low prices. This price reduction marks a real contribution toward lowering the installation cost of fluorescent lighting in stores, factories, theatres and other places.

**CAUTION:** As marvelous as this new fluorescent lighting is, it must be used correctly. There are many places where fluorescent lighting is ideal. Others where some other type of lighting may prove more desirable. Be sure to consult a qualified lighting expert who can assist you in getting the type of lighting you require. General Electric Company, Nela Park, Cleveland, Ohio.

### Fluorescent (Daylight and White lamps)

WATTAGE	BULB SIZE	WAS	NOW
15	T-8	\$1.35	<b>\$1.15</b>
15	T-12	1.70	<b>1.45</b>
20	T-12	1.90	<b>1.65</b>
30	T-8	1.85	<b>1.50</b>
40	T-12	2.70	<b>2.30</b>

### Blue, Green, and Pink fluorescent lamps

15	T-8	\$1.45	<b>\$1.25</b>
15	T-12	1.80	<b>1.55</b>
20	T-12	2.00	<b>1.75</b>
30	T-8	1.95	<b>1.60</b>

### Gold and Red fluorescent lamps

15	T-8	\$1.55	<b>\$1.35</b>
15	T-12	1.90	<b>1.65</b>
20	T-12	2.10	<b>1.85</b>
30	T-8	2.05	<b>1.70</b>

**OTHER PRICES ALSO REDUCED.** The 150 watt G-E MAZDA Projector lamp (both Spot and Flood types) is reduced in price from **\$1.70 to \$1.40.**

The 300 watt G-E MAZDA Reflector lamp (both Spot and Flood types) is reduced from **\$1.90 to \$1.70.**

Also effective March 1, 1940, General Electric announces price reductions on G-E MAZDA Lumiline lamps and certain high voltage lamps.

March 16, 1940

## THE BUSINESS OUTLOOK

**Analysis of basic industries—steel, textiles, construction, autos—indicates that decline is now critically close to point at which it may be expected to level off. Consumer income is bolstering influence.**

THE RECESSION is at a critical juncture. As yet, there are no conclusive signs that the decline in industrial activity will not be arrested at the estimated resistance level of 105 in the BUSINESS WEEK Index (BW—Feb 10 '40, p. 13). But at the same time there are no tangible indications that the Index will start up, once it gets down around 105. It is still well to look for periods of stalemate at that level—a tedious period, during which an upturn will have to wait on an accumulation of orders, possibly war orders.

### Back to Before the War

For the immediate present, it is worth noting that industrial activity has lost all of its wartime gains. The BUSINESS WEEK Index now stands at 107.9; when the war started it registered 108.2. And though this back-to-where-it-started relationship makes a nice point for reference, it is not by any means a substantial basis for reasoning that business can now take up where it left off when the war began. That sounds fine, even plausible; and a lot is being made of it among certain business analysts. But it is unrealistic. It assumes that the war has had no influence on business, that you can strip the six war months off the calendar and be back in September, unscathed.

### Inventory Destocking

Actually, however, we know that the war definitely accelerated the industrial tempo during the six months from September through February. That is not only true of the war industries—airplanes, machine tools, motor trucks, and steel—but of nearly all industries. There was a general accumulation of inventories, and now, as a reaction, destocking of those inventories is taking place.

The steel industry is an illustration. Current consumption is estimated at close to 70% of capacity, but production is running along at 65% of capacity; and incoming orders are at less than 50% of capacity. Thus consumers are not taking shipments of as much steel as they are using, and they are even ordering far less than actual requirements. It suggests that steel orders ought to pick up in the next few months—perhaps when auto companies place bids for 1941-model

needs. But since the producing rate is not far below the consuming rate, a big rise in output is not to be expected.

### Autos, Textiles, Construction

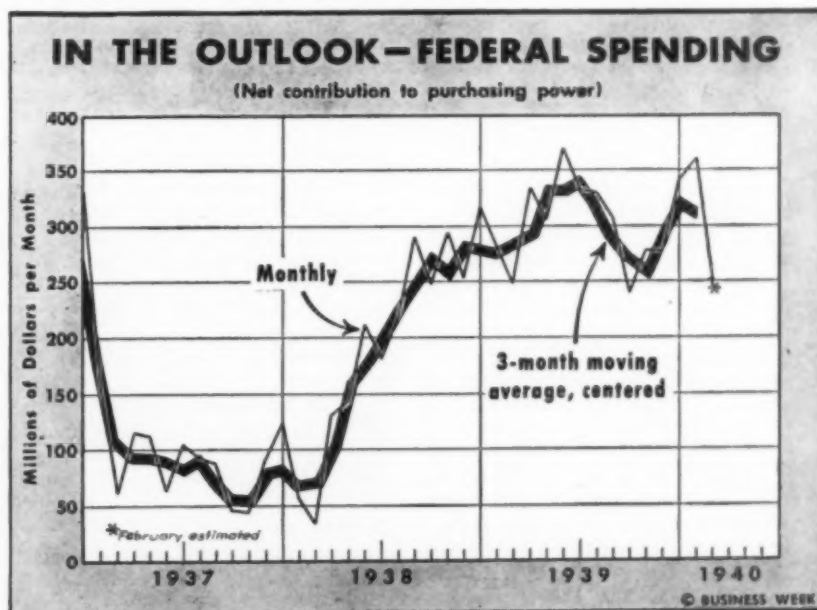
Other basic industries, however, do not offer such favorable indications as steel:

(1) Autos, for instance, might be said to be doing "suspiciously well" (BW—Mar 9 '40, p. 14). A dip in both sales and production is to be expected during the next few months. And perhaps it is not unwise to cast an eye into the far future and contemplate sales of 1941 models. With two good years—1939 and 1940—in a row, a drop in 1941 deliveries of cars would be no surprise; and makers, when they plan their fall production, will take that possibility into account.

(2) Textiles continue on their enigmatic course (BW—Feb 24 '40, p. 13). The decline so far has been moderate; and a jump in cotton cloth orders last week boosted backlogs (see Richmond Regional Outlook, p. 14). But even so, some further curtailment in production seems likely. Indeed, the reduction in sheeting prices—to entice new ordering—suggests that manufacturers are anxious to get business on their books.

(3) Construction can be interpreted both favorably and unfavorably. Total construction remains considerably below 1939 levels. On the other hand, the usual sharp seasonal drop from January to February in contracts awarded did not occur this year. Factory and commercial building are still the strong spots; but residential volume is not expanding. Some broadening in commitments would seem to be required if domestic influences alone are to turn business around.

And finally, to the list of business debits can be added: (4) A probable oncoming drop in the level of government



When the February figure on the government's net contribution to purchasing power is available in 10 days or so, it will show a big drop (as in the chart). The explanation is this month's income tax payments. In making up the "net contribution" estimate, tax receipts are prorated

over adjacent months; hence are reflected in the February figure. Therefore, the break in the spending line does not necessarily foreshadow a break in the trend. But what Congress does on appropriations will bear watching—as a basic influence on where the curve goes from here.

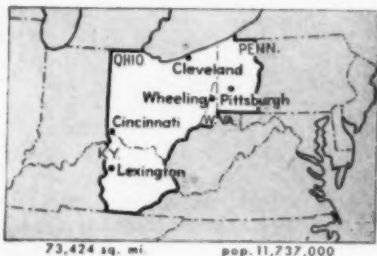
spending, though much depends on how serious are Congress' economy protestations, and (3) political uncertainties, which can be influential right now when new orders are few and far between, but which tend to fade whenever there are tangible signs of profits ahead.

On the other hand, purchasing power continues at a comparatively high level—

right near the 1937 highs, providing a definite cushion against any general business collapse; and the war offers a constant incentive to maintain inventories—so that re-ordering will respond quickly to any drop in retailers' stocks. Further, there is a longer-term influence at work. The state of confidence is better than it has been in a long time. For five years

now, business has held within a yearly range of 86 to 112 in the BUSINESS WEEK Index. That's not a high-profit range, but it's not bad either. And those five years have built up a greater willingness to take a chance—a greater willingness than when the depression lows of 61 in 1932 and 69 in 1933 were a close and tender memory.

## The Regional Business Outlook



**CLEVELAND**—Here, where 50% of the country's steel industry is concentrated, they'd like to think that this week's rise of one-tenth of 1% in the nation's steel rate was significant; that it marked the end of the decline. But people are not that optimistic.

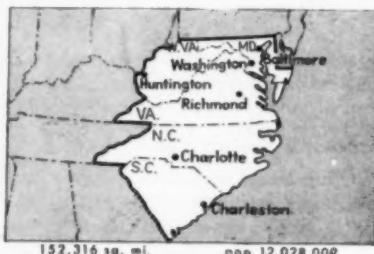
There is too much variation within the district itself to suggest that the industry is moving in unison. For example, Pittsburgh was down 6 points; Youngstown up 4 points; Wheeling down 2 points; Cincinnati up 4 points, and this city up 1 point. Coal mining, so closely allied to steel, is also off from the year-end high.

In other industries, the recession has not been so severe. Declines in automobile parts and accessories, in glass, and in tires have been cushioned by the unusually good level of motor production. In some small towns, like Sidney, O., business is booming because of the rush demand for machine tools and aircraft parts. Automobile re-tooling (see page 16) will boost new orders in the nearby months to come.

### Plant Expansion Prospects

Indeed, the bottleneck nature of these war demands has created a tentative demand for industrial building; and if large orders from the British and French come through, plant expansion can be expected in machine tool and airplane centers.

Generally speaking, the brunt of the recession has fallen in the eastern part of this Reserve district—heart of the steel and coal industries. However, despite the drop payrolls are running ahead of a year ago. And though retail sales since December have fallen here more than in the nation, they are still well above 1939.



**RICHMOND**—Right now the big question is the immediate future of cotton textile operations in the Carolina Piedmont. Supported by a burst of new orders, which brought incoming business up to shipments, production has held steady in recent weeks.

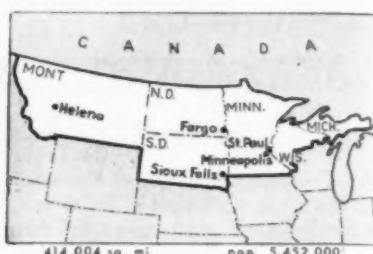
It is possible that the buying represents only a belated seasonal rise, which would imply that further curtailment has only been postponed—not averted. If, however, this proves to be the start of a major purchasing movement, it is safe to say that business in this district has seen the worst of the decline.

### Cigarettes, Hosiery, Paper

In the meantime, employment and payrolls are apt to hold fairly steady. In North Carolina and Virginia, cigarette production increased in February, counter to the seasonal pattern. In other consumer goods lines—hosiery, rayon, paper, and clothing—payrolls have evened out a gain here offsetting a loss there.

In West Virginia, coal mining is up and down with the weather; but operations in this area are making a better showing, relative to 1939, than coal output of other Reserve districts. In Maryland, steel production has dropped precipitately from its year-end peak, but even so activity in these heavy-industry areas is higher, by comparison with a year ago, than in most sections of this district.

As a result, West Virginia and Maryland have displaced the Carolinas as leaders in retail trade gains over a year ago—not only in sales of durable goods such as automobiles, but also in such shorter-lived merchandise as clothing and household linens.



**TWIN CITIES**—It's a lean time for farmers, with the frost still in the ground, plowing time a month or more removed, and harvest 'way off in the future, but nonetheless, some cash is rolling in. Marketings of dairy products and livestock are expanding, and with butter in storage relatively low and prices strong, the shipments go to receptive markets.

Grain sales also are picking up. With snow off the roads, farmers again can make their way to the grain elevators with the 55,000,000 bushels of wheat held under government loan in this district. A spot price over 81 has a way of melting federal seals. The early Easter, moreover, imparts another special seasonal lift to farm income. It puts ahead of schedule the customary post-Lenten rise in livestock prices.

Merchants, apparently, are taking these factors into calculations. Wholesale trade during Market Week here was 10% to 20% better than a year ago. And retail sales have held up particularly well in such rural regions as Minnesota's Red River Valley, and Fargo and Grand Forks, N. D.

### Trends in Industry

Industrially, there has been no sharp contra-seasonal drop in employment and payrolls primarily because there was no sharp war-boom rise in this district. Flour milling employment has been steady, and layoffs in meat packing have been deferred during the heavy hog runs. Railroad maintenance programs will expand once warmer weather sets in; copper mining in Montana still holds up, and on the Mesabi Range preparations proceed apace for an early opening of Lake shipping for iron ore runs in May.

*The Regional Outlook surveys each week three of the twelve business areas of the country.*

## Wagner Act Changes Stymied

Just where the Smith amendments will die can't be predicted, but their demise seems an election-year certainty. Meanwhile, NLRB shakeup looms.

WASHINGTON (Business Week Bureau)—Don't count on any changes in the Wagner act this session. That goes for the amendments proposed by the Smith Committee or others that such legislation is bound to pick up if it makes any headway whatever.

It's impossible at present to predict precisely where the legislation will come to a stop but it might be put this way: If the bill doesn't stick in the House Labor Committee, it will stick on the floor of the House. If it doesn't stick in the House, it will stick in the Senate Labor Committee. If it doesn't stick in the Senate committee, it will stick on the Senate floor. If it doesn't stick in the Senate, it will in the House-Senate conference committee, and if by that time the bill is not overtaken by adjournment, the President will stick it with a veto.

The President might have accepted the Smith committee proposals. He didn't—so the Smith report carries a protest of the investigating committee's two New

Deal members, Reps. Arthur D. Healey of Massachusetts and Abe Murdock of Utah. The report bears evidence that Rep. Smith of Virginia, anti-New Deal Democrat and his Republican colleagues, Reps. Charles A. Halleck of Indiana and Harry N. Routzohn of Ohio, sought to write a ticket that the Administration might accept. The proposed amendments can be accurately described as comprehensive but in the minds of many critics of the law and the board the Smith committee hearings warranted much more drastic treatment for the conditions exposed.

### Could Be Even More Drastic

Of course, it's the strategy of the Smith bill supporters to point out how much more drastic the proposed amendments could have been. If the bill is pried loose from the House Labor Committee, to which it has been referred, the Administration does run some risk that the measure will be made stronger rather than

## How House Would Change Wagner Act

AMENDMENTS of the National Labor Relations Act, as proposed by the House committee investigating the National Labor Relations Board, would bring the following changes in the law and its administration:

1. Create a new 3-member board.
2. The board's judicial and prosecuting functions would be separated by appointment of an administrator, having no connection with board, to receive and investigate charges of unfair labor practices, issue complaints, and prosecute them.
3. Employers would be given the right to petition for election to determine which of two unions in the same bargaining unit should be recognized. The board would be prevented from instituting collective bargaining action unless sought by employer or employee, and the board's services could not be invoked in a controversy between unions over type of bargaining unit.
4. In case of dispute as to appropriate unit for collective bargaining, the employer's refusal to bargain with either faction would not be an unfair labor practice.
5. An employer would be permitted to discuss any subject, including labor problems, with employees provided that there was no discrimination, intimidation, or coercion.
6. Neither an employer nor a union would be compelled to reach a collective bargaining agreement or make counter proposals, although they would be required to meet and make every reasonable effort to compose differences.
7. Collective bargaining elections in a unit could not be held more frequently than every 12 months.
8. Complaints would have to be issued within six months from date of unfair labor practices alleged and recovery of back pay would be limited to a maximum period of six months. Hearings on a complaint could not be scheduled within 15 days after date of service.
9. The board could not require reinstatement of employees guilty of violence or seizure of property.
10. The law's declaration of policy would be restricted to protecting employees in exercise of the right of collective bargaining rather than encouraging the practice.
11. The board would be required to conform to the rules of evidence applicable in district courts.
12. Assuance of subpoenas for appearances at hearings would be mandatory upon the request of employer, employee, or union.
13. Courts would be given the power to overturn the board's findings if they were not supported by substantial evidence or if clearly erroneous.
14. The courts would be permitted to review the board's decisions in representation cases.
15. The immediate report of the trial examiner would become final unless exceptions are taken by the parties.
16. Agricultural labor would be given the same definition as in the Social Security Act.

## International Harvester Whips Up Combine Competition



COMBINE COMPETITION boiled again this week when International Harvester introduced a new small combine for small farmers—one with a 48-inch cut, priced at \$405. Allis-Chalmers, which now sells a 40-inch combine for \$375, set off the small combine competition back in 1935 by introducing a 60. The minimum up to then had been 72. Other fac-

tors in the small combine field now include Allis-Chalmers' 60, selling for \$545, the Case 54 for \$555, Deere's 54 for \$600, and 66 for \$670—both just getting into production, and Minneapolis Moline's 60 for \$580. The new Harvester baby weighs 1,900 lb., is designed for use with the new small tractors, like Harvester's new Farmall-A (BW—Jul 15 '39, p17).

weaker. But entirely apart from this, the Administration desires no action at all. In its firm resolve to block the bill, the Administration is supported by the hearty desire of rank-and-file Congressmen to be spared having to vote on such an issue in a campaign year.

Timing his moves to stop any possible action, the President is shortly expected to shake up the personnel of NLRB. This is understood to mean that if J. Warren Madden, board chairman, is not shifted to another federal job before his term expires in August, the President certainly will not reappoint him.

While Edwin S. Smith, whose term does not expire until August, 1941, may continue as a minority member of the board, there are also seemingly reliable reports that he, too, may be rubbed out by transfer. Nathan Witt, board secretary, whose conduct was the object of severe criticism during the Smith committee hearings, is slated for removal.

In the shake-up, William M. Leiserson, newest member of the board and highly respected by both labor and industrial leaders, is expected to succeed to the chairmanship. With appointment of associates of similar repute, the defenders of the Wagner act hope to gain at least a year's time in which a moderate administration of the law may result in dropping demands for drastic legislation.

An enlightening fact in this connection is that one amendment proposed by the Smith report, namely that depriving the board of power to enter disputes between C.I.O. and A.F.L. unions, has been discussed in executive committee by the

## The Burlington Gets Three New Diesel-Electrics



*Originally put on last year to get a cut of the World's Fair traffic pie for the three summer months, the Chicago-San Francisco Exposition Flyer, jointly operated by three western railroads—the Chicago, Burlington & Quincy, the Denver & Rio Grande Western, and the Western Pacific—surprised everyone by qualifying for*

*an all-year fixture. Though the train was—and still is—made up of conventional equipment, now that the Burlington is taking delivery of three streamlined power units like this 4,000-hp. Electro-Motive jumbo, it's going to be pulled by a diesel-electric—on the C. B. & Q. section of the run anyway, Denver and east.*

House Labor Committee for some time past. A majority has indicated it would favor such an amendment, feeling that the board's activities along this line have caused a major part of the trouble, but is not willing to sponsor it now because it would throw the whole law open to revision from top to bottom.

General Motors' lines, from Chevrolet to Cadillac, are due for a complete re-vamping of body styles this year. It is generally assumed that they will be restyled along the lines of this year's extra-priced "Torpedo" models, offered by Pontiac, Olds, and Buick, though body weight will be reduced somewhat. It is also expected that a new extra-price series, featuring even more advanced streamlining, will be made available on some of the makes again.

If Ford should set a lower price on its six-cylinder car, nobody knows what Chevrolet and Plymouth would do—introduce new low-priced cars or cut prices on standard models. The latter would seem to be the more likely since neither company has shown important activity in small car development work recently.

## Auto Sales Up, Detroit Eyes 1941

**More cars were sold last month than in any other February, but production must taper off now to clear way for next year's models, already in the works.**

DESPITE INCLEMENT WEATHER, automobile sales have been hitting a record-breaking pace; volume last month was greater than for any other February in history. However, new car stocks in dealers' hands, estimated at close to the three-quarter million mark, remain amply high. Consequently, production, which has run well ahead of sales for some time, may have to taper off in the next 30 days. Otherwise, there will be bad clean-ups at change-over time. February's output of better than 410,000 was surpassed only by February, 1929. With declining rates, the longer month of March should show less than 450,000—with the total more likely in the neighborhood of 425,000.

Used cars so far this year have not been a particular problem. At the present time, stocks are still normal, though they naturally will increase as retail deliveries

pick up during coming weeks. Unless production is held in check, the push to move new cars may later produce an unhealthy situation by forcing over-allowances on used cars.

That there may be a somewhat longer average change-over period than last year seems likely in view of the extensive changes and addition being planned by major companies for this summer. With its eyes on the success of the Studebaker Champion in crashing the low-priced field, Nash is fairly well set to spring its smaller lower-priced car as the 1941 line-leader. Ford, this year, has also gone farther in developing a smaller car than ever before and has placed extensive machine tool orders, predicated on its production before the end of the year. Packard, after working on a projected smaller six for some time past, is reported to have abandoned the project.

### Lead Off with New Models

Present indications are that Packard and Nash, closely followed by Buick, will be the first to announce new models, while Chrysler and Ford will be among the last to get into full-scale production. Chevrolet, sadly delayed last year by the tool-and-die strike, may spring its new cars somewhat earlier, though this depends largely on dealer stocks at the time. At any rate, it is reported that reservations for tool-and-die work have already been made with a considerable number of outside shops.

Indicative of the manner in which re-tooling programs have been moved ahead this year, is the sharp upturn in automotive machine tool orders during the last two weeks. However, it is doubtful whether new machines will actually be

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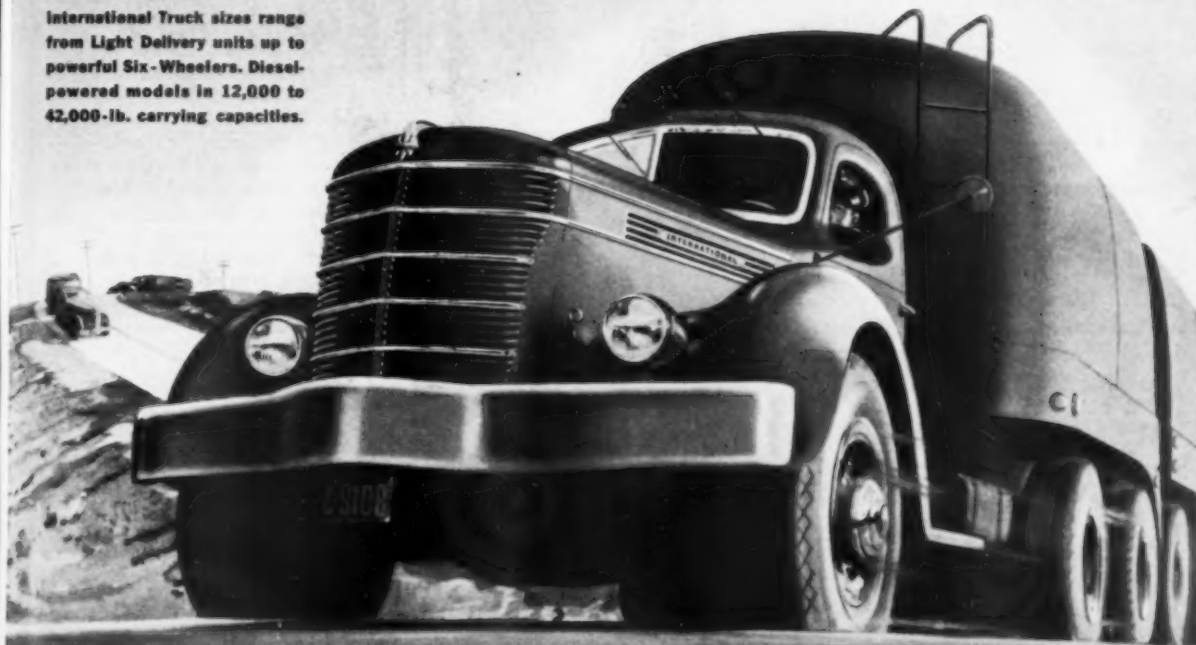
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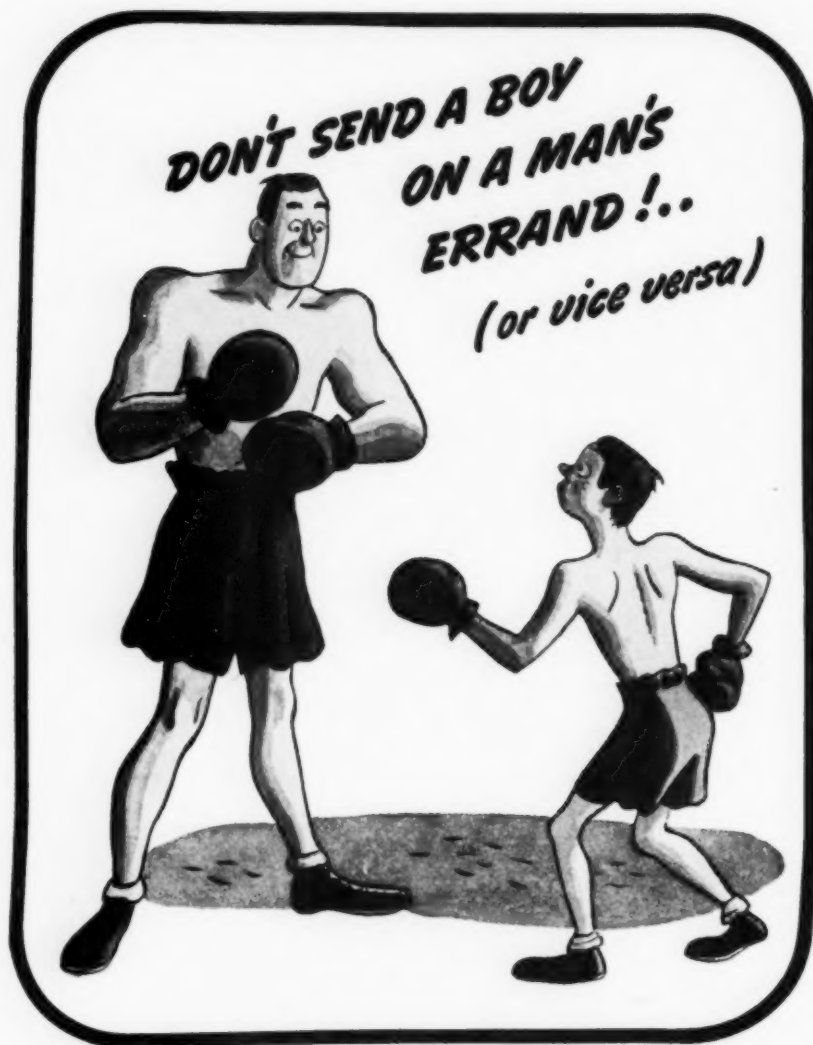
\* Heavy Duty means all trucks  
rated at 2-ton and over.

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42,000-lb. carrying capacities.



# INTERNATIONAL TRUCKS

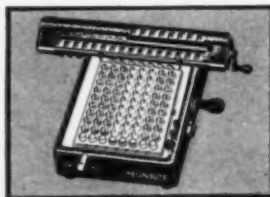


**"IF** you have a figure-work giant, don't put Junior in against him." That seems obvious. But some men are doing this — because they didn't realize that they could get just the right figuring machine exactly made for their needs.

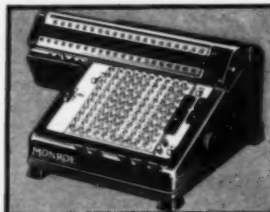
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#### What Kind of Winter Auto Makers Have Had

**Buick**—With retail sales of over 37,000 cars in January and February, Buick had the best showing in its history for those two months. It is planning the construction of a new axle plant and additions to its sheet metal plant.

**Chevrolet**—With sales of about 75,000 cars and trucks, did a February business second only to 1929.

**Chrysler**—Has released no retail sales figures, but recovery since strike has been rapid.

**Ford**—Is particularly pleased with sharp upturn at the end of February in truck sales—some 50% ahead of the same period last year.

**Graham**—Now hopes to be in production by the end of the month. Plans call for permitting distributors to set their own delivered prices in their sales areas.

**Hudson**—Shipment of 1940 models to date exceed total 1939 model shipments by 12,000 cars.

**Oldsmobile**—Passed the 100,000 mark for 1940 model production in mid-February and followed with an all-time peak for the last ten days, 5,753 cars, boosting February over January totals.

**Studebaker**—February marked completion of first year's production of the Champion. Total for 12 months: 122,631 cars, compared with 56,016 cars in the twelve months prior to addition of the Champion to Studebaker line.

**Packard**—February deliveries totaled 5,880 cars compared with 3,346 last year and a rather disappointing January total of 4,371.

**Pontiac**—Had best February in its history with net sales of almost 15,000 cars, largely due to pick-up in the closing days of the month.

**Willys**—Shipments of 1940 models through February totaled 12,780 cars, an increase of 137% over same period last year.

delivered earlier than a year ago; delivery time has been lengthened because of the back logs of both foreign and domestic machine tool orders carried over from last year. Though most machine tool builders are quoting 14 to 16 weeks delivery on relatively standard machinery, delivery date specifications have come to mean little in the industry.

Though there has been some buying activity in steel and other materials in recent weeks, it is doubtful whether any heavy tonnage will be bought by the industry in the next thirty days at least. No sharp upturn in automotive steel demand is in view before summer, because of the probable decline in production and the unlikelihood of obtaining major price concessions from the steel makers at this time.

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## New Test for Patents

**Systematic use of agency contracts under fire in Arnold's suit against hardboard industry.**

THE DEPARTMENT OF JUSTICE took another step this week in its drive on building costs and what it regards as the illegal use of patent rights to maintain monopolies. Thurman Arnold's trust-busting contingent brought suit in federal District Court in New York (Southern District) against practically the entire composition hardboard industry, charging violation of the Sherman and Clayton Antitrust Acts.

The department's investigation of restraints in the building trade has already gained a dozen indictments of individuals, corporations, labor unions, and business associations in eight cities (BW—Jan 6 '40, p. 15). These indictments, however, are concerned with such matters as collusive bidding, bribes and payoffs, and intimidation of competitors. The suit brought this week against the hardboard industry is different: Its purpose is to press the charge that patent privileges are being used to circumvent the antitrust laws. A similar case, which is now hanging fire in Toledo, Ohio, involves the glass container industry (BW—Dec 16 '39, p. 18).

### Makes 96.5% of National Output

The hardboard complaint names ten major companies: Masonite Corp., Celotex Corp., Certain-teed Products Corp., Johns-Manville Sales Corp., Insulite Co., Flintkote Co., National Gypsum Co., Wood Conversion Co., Armstrong Cork Co., and Dant & Russell, Inc. All of the hardboard sold by these companies is produced under patents held by Masonite, which manufactures 96.5% of the national output.

The other companies sell Masonite's hardboard under a series of so-called *del credere* agency contracts, and agree, says the complaint, to sell at prices and on terms fixed by Masonite. The complaint alleges that each of the so-called agents has agreed not to manufacture competing lines of hardboard or any product which by reason of physical characteristics and selling price might constitute a competing product with hardboard; further, that each agent has agreed not to sell hardboard outside the building industry, thus reserving to Masonite the exclusive marketing of the product to other industries.

### Court Gave Its Sanction

As long ago as 1926, in a case in General Electric's favor, the Supreme Court okayed price-fixing by manufacturers under *del credere* arrangements. The essential feature of a *del credere* contract is that title to the goods does not pass to the distributor. As an agent, he simply

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If you're overhauling rolling stock, or cutting metal in any industry—Disston *Di-Mol* Hack Saw Blades will help you keep up-keep down.

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This book should be on the desk of every factory executive. It is yours for the asking. Send for your copy today.

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The drain on industrial profits is frequently due to difficulties in locating small leaks in plant overhead expense. The large leaks are quickly discovered and corrected. But a combination of small, hidden wastes can also add up to an impressive total. To control or eliminate these losses, Carey has developed, through years of research and practical experience, products of Asphalt, Asbestos and Magnesia that are of increasing importance to industry.

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ROOF PAINTS, COATINGS, CEMENTS  
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These money-saving products are available through a nation-wide service and distribution organization whose personnel will assist you in solving your maintenance problems. Telephone or write the nearest Carey branch office.

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**THE PHILIP CAREY COMPANY • Lockland, Cincinnati, Ohio**  
*Dependable Products Since 1873*  
**BRANCHES IN PRINCIPAL CITIES**  
**ASPHALT, ASBESTOS AND MAGNESIA PRODUCTS FOR INDUSTRY**

holds the goods on consignment and pays for them only when sold. And because the manufacturer owns the goods, he retains the right to dictate the prices at which they shall be sold and the terms of the sale.

When this week's suit was announced, Ben Alexander, president of Masonite, commented that "it is obvious that the Department of Justice is trying to find out whether the Supreme Court will now reverse itself."

But the Department of Justice will take the position that it is not attacking *del credere* contracts as such. Instead, it will hold that the systematic use of agency contracts to bind manufacturers who are (or might otherwise become) competitors constitutes a restraint of trade. Because there is admittedly no precedent for this principle, the department is bringing a civil rather than a criminal suit.

### Licensing Agreements Weighed

Nearest thing to a precedent as to how far patents which grant a monopoly can be used to support price-fixing is the Ethyl case now before the Supreme Court. A federal District Court held that Ethyl's jobber licensing agreements were in restraint of trade (*BW—Jun 10 '39, p8*), and Ethyl appealed. The Supreme Court heard arguments last week and will be coming through with its decision before long.

The hardboard case itself will be more important as a precedent than for any direct effect it will have on building costs. Annual production of the composition board made of wood or vegetable fiber runs to about 200,000,000 square feet, with a value of around \$7,000,000. Probably less than half of the production goes into the building industry, where it is used for wall board, decorative panelling, interior tile, flooring, and molding. Currently, it has a wider variety of other industrial uses, such as for advertising displays, table tops, motion picture sets, and interiors of automobiles, ships, and trains.

### Will Prices Be Brought Down?

Other products throughout the building industry, however, are manufactured and licensed in similar fashion. The Department of Justice thinks that invalidating agency set-ups will mark the beginning of competition and lower prices. But Masonite's president says the effect would be just the opposite.

If agency contracts are done away with, there are two alternatives, according to Mr. Alexander. "We could license other companies to make hardboard, but with production scattered among a lot of small plants, costs would necessarily be higher. Or we could undertake to produce and sell all the boards ourselves, but again costs would increase since we would not be able to utilize the established sales facilities of other companies."

## Ice Off the Wings

**De-icers didn't de-ice, and so airlines discarded them, but next fall they'll have new device.**

HAVE YOU NOTICED that the airliners aren't using those de-icing devices on their wings and tail surfaces this winter? In case you have, and are wondering why, here's the answer. The airlines found, after five years, that de-icers actually aided rather than hindered formation of ice on wings. And so away with 'em. The old hazard was not overlooked, however, for pilots flew carefully around areas where icing conditions prevailed.

Next fall, after the lapse of a year, new de-icing equipment will be installed on the planes.

The obsolete equipment consisted of a rubber "boot" running along the leading edge of the wing, inclosing from five to eight flat rubber tubes. These tubes were inflated with air from a pump mounted on the engine. Hooked up so that alternate tubes would be inflated and deflated, a "breathing" action took place, cracking the ice. Once cracked, the air rushing by peeled the ice off in chunks.

In severe storms, the ice formed was so thick that the dislodging motion peeled off such long pieces that the entire wing was kept free. In milder conditions, however, as experiments revealed, the metal strip along the back, attaching the de-icer to the wing, interrupted the air-flow enough to cause a thin layer of ice behind the de-icer. With the lift of the wing relying on a smooth flow of air over it, this ice, forming at a critical point, greatly reduced the lifting power. So serious was the decrease in lift that air liners normally landing at 45 to 50 m.p.h. came in at 90 and oftentimes 120 m.p.h.

### Sub-Stratospheres Get Device

Development of new equipment was disclosed at a maintenance meeting of the Air Transport Association of America at Kansas City in February. Resembling the old equipment in the inflation principle, the new de-icer boots will run approximately one-third the way back on the top and one-fifth the way on the bottom of the wing. By tripling the number of pulsating rubber tubes, this area will be kept free of ice (it being found that with this much of the wing kept clean the remainder of the wing stays clean also). To safeguard against ice behind the point where the boot is attached, the fastening cap strips will be sunk into troughs recessed along the wing.

This flush-type de-icer has been built into the new sub-stratosphere planes going into operation in early 1941. Present transports will be taken to maintenance shops next fall for fittings before the pilots again confront their No. 1 winter worry.



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HER EYES ARE ON THE WORK, NOT ON THE KEYBOARD

On the Underwood Sundstrand there are only 10 numeral keys, scientifically arranged to make touch figuring the natural method of operation. The result is increased figuring speed and greater figuring accuracy.

## Fuel from Corn, Again

**Undaunted by Agrol's failure, Iowa co-ops are raising money for another alky-gas plant.**

OIL REFINERS and marketers last week pricked up their ears because of advertisements in the newspapers of such Iowa towns as Victor, Story City, Ankeny, and Marion. Through these ads, local farm co-ops urged members to buy 810 shares so that the co-ops in turn could buy into Power Alcohol Cooperative Association, newly formed to start up an alky-gas plant (BW—Feb 24 '40, p8). Membership is limited to Iowa oil, gas, and farm co-ops, of which the state has more than 225. Eight of these organized the association, and meetings have been held recently to whoop up enthusiasm for the enterprise. At the National Farm Institute in Des Moines the other day, it was much in the air.

Talk is of investing \$200,000, using 300,000 bu. of corn annually, producing 2,500 gals. of alcohol daily. Organizers say the membership alone will put up all of the capital (there are 45,000-50,000 farm co-op members in Iowa). Individuals sympathetic to the project, but more experienced in six-figure finance than most cooperators and lacking their evangelistic zeal, are estimating the enterprise can raise \$40,000 to \$50,000 from the cornfields, and must look to some government lending agency, probably the Bank for Cooperatives, for the balance. The Chemical Foundation and the National Farm Chemurgic Council say they are not backing this project (they backed the late lamented Agrol outfit at Atchison, Kan.) and declare that all they know about it is what they read in the newspapers.

### Higher Cost Sets Up Obstacles

The Iowans behind the deal watched Agrol flop, and some of the co-ops around Plymouth and Le Mars, Iowa, sold a good deal of Agrol's output. They intend to avoid Agrol's plant weaknesses, and believe that they will have no marketing problems because members will consume all of the power alcohol the plant can make. They say transportation costs will be accordingly low, and that low-cost raw material will always be in plentiful supply. A few of the harder-headed co-operators see the same big hurdle that Agrol failed to clear: Cost of producing a gallon of alky-gas is greater than that of regular fuel. This is making some of the boosters doubt whether anything will be done soon.

Observers close to the scene expect Power Alcohol Cooperative Association to make passes at some of the corn near the spoiling point held by the Commodity Credit Corp. or by the Federal Surplus Commodities Corp. The Chemical Foundation once tried to buy for the

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Atchison plant sound government corn at prices equivalent to the export price, but never got to first base.

Dr. William J. Hale, alkyl-gas enthusiast recently severed from the National Farm Chemurgic Council board, is spending much time in Washington these days, is in there swinging for power alcohol.

If some low-cost government money is promoted, the new cooperative may start on its way fairly soon. If it also lands some low-price government-owned raw material, the outfit should start with fewer strikes on it than its ill-starred predecessor. After all, unlike the Agrol, it is not out to create a new and overwhelming national demand for an automobile fuel that will lick the surplus corn problem. Rather, it is intended to give its farmer-member-owners a chance to burn some of their own crops in some of their own cars and trucks and tractors.

## Truckers' Dilemma

**Many small operators find they are unable to get insurance required by new Illinois law.**

ILLINOIS MOTOR HAULERS officially blessed the truck regulatory bill in the last legislature, pushed for its enactment chiefly because it gave "grandfather rights" to established truckers (*BW—Jan 24 '39, p27*). Its provisions for periodic safety inspections and compulsory public liability-property damage insurance agreed with the major companies' regular practices, anyway. When the law came up to its effective date two weeks ago, only four small operators asked and received temporary injunctions, and these exempted only the successful petitioners. The big haulers professed astonishment that anyone should object to the law.

Last week a more serious difficulty appeared. Insurance companies, reserving the right to select their risks, were picking and choosing among the little operators. Many a one-truck owner, previously uninsured and contented, squawked loudly when he found he could not get a policy. Rather than rule these involuntary violators off the highways just before the April 9 primary, the state administrator permitted them to operate, said he foresaw no satisfactory answer to the problem.

Meanwhile, Illinois Director of Insurance Ernest Palmer sent a persuasive letter to all automobile insurers licensed in the state: "Possibly the companies will be able voluntarily to create some pooling arrangement for taking care of this automobile business which no single company apparently is willing to write." Palmer's "voluntarily" implies a department ruling if the companies fail to take the hint. But he sees no by-pass around the statute prohibiting discriminatory rates, the one way the companies might take on weak risks without loss.



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## Bets for Television

**Transmission from plane may be significant in newscasting, army intelligence, and aviation.**

WASHINGTON (Business Week Bureau)—Men of television last week made a test that may open three air routes to new business. After months of trimming weight from their ponderous camera-transmitter, they reduced it to 700 lbs., loaded it aboard a United Air Lines' laboratory plane, and gave RCA-NBC's 10,000 receiver customers a pilot's eye trip around Manhattan.

No. 1 sure business prospect is the telecasting of news events (like fires, wrecks, crowds, floods) from airplanes to main transmitters for recasting to "consumers' sets.

A second business prospect is military observation, artillery fire control, and the like. But this is controversial. Military men say present aerial observation and report by voice radio is, and may remain, more practical than televised pictures. The heavy transmitting plane would be vulnerable. It is pointed out, too, that the enemy could often use interfering transmissions to blast the pictures with useless blurr.

Third prospect, farther in the future but potentially more valuable, is television aid to instrument landing of transport (and military) planes in zero-zero weather. One practical possibility is that the tele-camera can use infra red light to penetrate fog and get a picture of the field which would be viewed through television by the incoming pilots. The other is that, by radio triangulation between the approaching ship and points near the fogged-in field, a small model of the airport may be tipped and turned in such a way that the image of it, televised to the pilot, will appear to him in perspective as the real field.

## Fur from the Marshes

**Louisiana's pelt harvest, often rivaling that of Alaska and Canada together, climbs again.**

THEY ARE SAYING in Louisiana that the hair-raising Long-Jones gubernatorial campaign put fine pelts on the muskrats this year. The record cold winter may also have added hair and sheen to the rat pelages, but at any rate Louisiana's three to ten million dollar fur industry is climbing back from its drought-era low. Politics actually helped. During the death throes of the Long machine a marsh parish senator wangled legislation extending the trapping season to Feb. 15 against a normal Feb. 1, a two weeks' addition to a 72-day season allowing 20,000 Louisiana trappers to swell catches previously held down by the icy weather.



*The official debut last week of the new RCA lightweight television transmitter—which was installed in a United Air Lines plane (above),*

and televised a fight over New York City—proved so successful that the unit has already gone into NBC's regular television service.

An income of \$5,000,000 is no trifle in the Pelican economy, nor in the nationwide fur industry. Louisiana's fur catch—muskrat, mink, otter, raccoon, and opossum—frequently totals more than that of Alaska and Canada together in number of pelts, and the muskrat take is generally three-quarters of the entire United States total. The drought period, represented in Louisiana by 1934-36, lowered the water level of the sea marshes and bred so much coccidiosis and other rat disease that the rat catch dropped to 2,000,000 from its 1929-30 season high of 6,270,000 pelts, near disaster. This season it is back above 4,000,000 and the Cajun trappers had a market of 60 to 70¢ per pelt, another prosperous step up from the depression low of 14¢ per pelt.

### Developed As Natural Resource

Rat population is recovering from the disease inroads of 1934-36 and the state conservation department is managing the muskrat colonies of the Gulf marshes as a permanent natural resource to be farmed and developed annually, with the day in sight when Louisiana will produce a dependable 10,000,000 rat pelts a year. In one of those rare sequences of backward marketing, individual trappers late last month and early this month transacted their \$3,000,000 retail business, selling to local buyers in small lots, and next June these buyers in turn will do the wholesaling of 2,500 pelt bales to northern furriers.

The curious concentration of heavy muskrat life in a few southern Louisiana parishes, out of a total active belt covering most of this country and a part of Canada, forms the bulk of the Louisiana fur industry. This industry is a genuine wild life affair, not a domestic enterprise like silver fox farming. The output fur-

nishes the nation with stock grades of muskrat furs, as well as moleskins from plucked rat pelts and most of the Hudson seal from the plucked pelts dyed black. Other fur bearers of the state are also meeting a good market this year. Production in the secondary furs this year will be slightly better than normal at prices a shade better than last year. Opossum is the cheapest at a dime a pelt, and used almost wholly for strip trimming of trinkets. The 1940 catch at 400,000 represents a good average take and incidentally plenty of roast meat with yam stuffing. Mink figures will run 250,000 and prices at \$3 to \$4 a pelt represent no more than is fair to the trappers, since an average mink during the year will have slaughtered a good many young muskrats, the muskmice and kits.

Raccoon is expected to equal the mink catch, and the valuable otter at only 40,000 pelts is up to normal, bringing total fur income when skins are all dried and sales finished to a statewide total near \$5,000,000. Trappers, meanwhile, have gone back to shrimp fishing.

### Extended Wagner Act

SERVICE AND CLEANING EMPLOYEES in buildings owned and used by corporations engaged in commerce subject to federal jurisdiction come within the scope of the Wagner Act, the National Labor Relations Board declared last week, in its first order on this point.

The declaration was made as part of a Board order to the Texas Company to bargain collectively with 48 employees who clean and service the Houston office of the company. The company had contended that the work of its employees, who were members of an American Federation of Labor union, was purely local.

## MARKETING

ADVERTISING · MERCHANDISING · SELLING

### Vitamins Invade the Butcher Shop

And while the meat industry cashes in on findings of medical science, the hunt for sales-giving health tips continues, financed by farmers and packers.

BEFORE last week's meeting of the Chicago Medical Society an eminent M.D. read a paper recommending meat as actually helpful in treating Bright's disease, instead of being a sure way to kill the patient. Another equally distinguished authority asserted that harm can be done in high-blood-pressure cases by the time-honored procedure of withholding meat. Medical journals nowadays are topheavy with papers plugging meat, on unassailable scientific evidence.

What not even most physicians realize—though it is all in the open—is that much research tending in this direction is carried on by the National Research Council on money raised by the National Live Stock and Meat Board. At 50¢ per carload of livestock, paid jointly by the selling farmer and the buying packer, the board collects some \$300,000 a year to get in its licks.

Even now the packers' copywriters are sharpening pencils and market analysts are drawing new charts because recent researches rank meat near the top of all foods in many of the health-giving (and sales-giving) vitamins. As many a manufacturer in other food lines has proved, if you can sell your goods not merely to tickle the family's taste-buds but also to keep the doctor away, you really have something.

#### Research Job Pays Millions

The National Live Stock and Meat Board started out 15 years ago on such details as browbeating candy makers out of claiming each bar equalled a 1-lb. beefsteak for nourishment. It spread to finding better ways to cook and merchandise meat, developed such handy contrivances as its carving manual and its roasting thermometer.

Presently the Meat Board gave the National Research Council a small sum. The council hit on a hunt for treatment of secondary anemia, assigned the research to the University of Rochester. This project came up with medically unassailable evidence of the usefulness of liver extract, was carried further at Penn State with studies of the iron content of meat. Its results boosted calves' liver to 60¢ per lb. inside a few months, made beef liver a brisk-selling item instead of

something the butcher gave you for the cat. Pork liver was promoted from a fertilizer ingredient to human food and raw material for the pharmaceutical houses. The meat industry estimates this job was worth several million dollars a year.

The Meat Board scored again when Rush Medical College first proved five years ago that protein is not harmful—as previously believed—to human kidneys. The research then developed high-protein diets for weight control. Now doctors casually tell patients, "You're too heavy. Eat all the lean meat and cheese and fish you want, reduce fats and starches and sugars." Nobody can measure this on a cash register, but millions of people trying to change themselves from stouts to slims are eating more meat in consequence.

#### Health Tip for South

For three years the Meat Board has supported an extensive project at the University of Wisconsin. First, the research revealed that lean pork especially, and most other lean meats, outrank all other unfortified foods in Vitamin B<sub>1</sub>, thiamin. Quaker Oats has been sold heavily of late on its thiamin content. Now the interesting possibility arises that ham may give it a run as the nerves' best friend on the breakfast table.

The same laboratory got Wisconsin international renown when it recently reported that nicotinic acid (another B-group vitamin) cures and prevents pellagra. The Meat Board let no Southern doctor miss the verbatim summary of the research: All meats are high in nicotinic acid, and a small piece of lean meat in the daily diet may stand between the high incidence of pellagra in the South and its complete disappearance.

The same group is investigating another B-group vitamin, riboflavin. It has found that liver is tops in this, with meat running high. The liver finding is too bad, for liver is already easy to sell.

Ten years ago the University of Minnesota undertook, on Meat Board money, a study of the role of fats in nutrition, found that lard is the richest source of certain unsaturated fatty acids which

What  
EXECUTIVES  
SHOULD KNOW  
about  
WATER DAMAGE



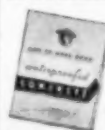
Every industrial executive should be concerned about the damage caused by water. Each year millions of dollars are lost through merchandise and machinery being ruined in damp and wet basements or warehouses. Valuable storage and sales space has been lost. The unexpected heavy rain or flood has cost industry millions of dollars.

As a business executive, you can help prevent this costly water waste. Make sure that all concrete, mortar and plaster coats used in the walls and floors of your new building are Medusa Waterproofed. Medusa Waterproofing costs only a fraction of the money necessary to repair leaky walls. If, however, any of your existing buildings have damp interiors, they can be corrected through the use of Medusa Waterproofing in plaster coats or floor toppings.

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## 25 PERTINENT QUESTIONS for Addressing Machine Owners

	ELLIOTT ADDRESSING MACHINE	IS THIS YOUR ADDRESSING SYSTEM?
Does your addressing machine print visibly — address side up?	Yes	No
Are your address cards flexible and colorable?	Yes	No
Do your address cards flatten down with use?	No	Yes
How many address cards do you get in a 1" stack?	20	11
Do your address cards soil your operator's hands?	No	Yes
Is your address embossing machine silent?	Quiet	Noisy
Is your address printing machine silent?	Quiet	Noisy
Speed of addressing machines selling under \$150.00.	125 A.P.M.	25 A.P.M.
Weight of address cards	Up to 6 lbs.	Up to 74 lbs.
Do your address cards require protruding index cards?	No	Yes
Do your operators usually wear gloves?	No	Yes
What is cost of 1 address card, ready to print?	1c and up	3c and up
Can you write and print on your address plates?	Yes	No
Will your addressing machine print perfectly on uneven thicknesses?	Yes	No
Are all lines of same addresses uniformly printed?	Yes	No
Is every address as well inked as the first address?	Yes	No
Can you print facsimile typewritten addresses?	Yes	No
Can you print facsimile hand-written addresses?	Yes	No
Will your address plates feed either top or bottom forward?	Yes	No
What is weight of 1 tray of address cards?	Up to 2 lbs.	Up to 14 lbs.
Will pay sheets automatically eject?	Yes	No
If you skip an address plate can you back it up?	Yes	No
Did you ever get the wrong index card on an address plate?	No	Yes
Are your address cards in sight while addressing?	Yes	No
Do your address plates jam in your addressing machine?	No	Yes

The Elliott Addressing Machine Co.  
151 Albany Street Cambridge, Mass.

are essential to human wellbeing and which the human body cannot produce. Another laboratory at Minnesota, without Meat Board backing, took this finding and proved a connection between some types of eczema in infants and unsaturated fatty acid.

### "Compensation" for Industry

A sore point with meat men for years has been the fact that, while addition of vitamins to vegetable shortenings has long been permitted, and even encouraged (in Denmark, incidentally, it is compulsory), the Bureau of Animal Industry has ruled out similar shots-in-the-arm for lard. The meat industry has had to sit back and take it while such fast-selling vegetable products as Nucoa advertise added Vitamin A. Which is a big reason for the rejoicing at the newfound chance to cash in on the health angle for meat products.

To see what this might offer, a Middle Western medical school ran a preliminary test by feeding lard on crackers to a number of eczematous patients. Several of the chronic cases quickly cleared up. So that school is now undertaking a Meat Board-financed formal research, with all of the necessary controls, to see whether this is really scientific discovery. One daytime radio advertiser has already jumped the gun, is urging mothers to feed babies lard on crackers. If it proves out, watch the national lard surplus dwindle, and the vegetable shortening people squirm.

## Setback for Co-ops

**Extension of production-for-use store system in California is blocked by relief slash.**

A 40% cut in California's normal relief appropriation to June 1 and drastic operating restrictions made by an "economy-minded" legislature (largely as a slap for Gov. Culbert L. Olson) mean temporary shelving of plans for increasing the number of production-for-use, co-operative stores in the Golden State. Establishment of the first grocery unit in Los Angeles last fall attracted nationwide business attention (*BW—Dec 9 '39, p30*). Later two clothing outlets were set up, one in San Francisco and another in Los Angeles.

Over the governor's veto, the legislature passed a bill Feb. 24 appropriating \$12,200,000 for relief until June 1. Olson had asked for \$19,000,000. The bill wiped out the State Relief Administration's publicity department and provided that none of the money was to be spent for issuing press information on relief matters. About 2,700 of the 6,800 SRA employees were dropped last week from the payroll.

Gov. Olson has been chary of releasing figures on the first few months' opera-

tions of the Los Angeles co-op grocery. While the legislature was in special session on relief, the governor felt that any figures, favorable or unfavorable, would be used against his proposals. Now that his entire relief program has been scuttled, he's even more determined not to stick his neck out by opening the store's books to the public. A few broad results are evident, however.

### Giving the Reliever More

In the Los Angeles food market, people on relief (after being properly certified) purchase food products and a limited range of house supplies such as soap, exactly as they do in any market. They enjoy price advantages and a prospective share in savings that may be made by this method of distribution.

The two clothing stores eliminate the old "bundle" system whereby a reliever is given garments made by other relief clients under a hit-or-miss plan. Attention is paid to clothing sizes in the new stores, and garments are fitted, and altered if necessary.

Under Gov. Olson's plan, these stores were to be the first of a statewide organization which would distribute to relievers the products of co-operative canneries, bakeries, sewing projects, and similar enterprises. It was argued that, through these stores, the producing co-ops could market their products without invading private distribution channels and people on relief would be able to get more for their relief dollar. Preservation of self-respect is a definite part of the program.

In the first two months, the Los Angeles food store did a good business with a growing customer list. Along with customers came business groups studying the enterprise.

### No Cause for Alarm

One of the most recent investigations was made by food market interests who studied the production-for-use store strictly from the standpoint of possible price competition. They finally gave it a clean bill of health. It was found that the stock probably inventoried around \$2,000 at wholesale prices and was made up about equally of co-op products and regular grocery items bought through the trade. Regular items were in all cases priced with a margin of at least 8% to conform to California fair trade laws. Therefore, the investigators concluded, private grocers in Los Angeles have little to fear from the store.

Co-op products, such as canned foods, were not so easily appraised because quality governs price. Samples bought for cutting were pronounced "nothing to brag about."

The store makes no attempt at displays to attract its relief client customers (the only kind it has) but its goods are attractively arranged and clerks help customers make selections.

## Ads Aiding Farmers

Nine states now promoting their own products, and survey shows campaigns bear fruit.

BECAUSE state agricultural advertising proposals are before several legislatures, a survey completed last week by Botsford, Constantine & Gardner, Pacific Coast advertising agency, showing nine states now have such laws, is likely to attract considerable business attention.

Farm and dairy promotion statutes have been enacted in Idaho to sell potatoes and onions, in Washington to promote apples and (soon) dairy products, California advertises prunes and pears, peaches and wine, Florida is spending some \$750,000 annually on citrus promotion. Maine pushes such items as potatoes, sweet corn, blueberries, lobsters, and scallops. Wisconsin promotes its dated cheese; New York, its maple syrup, milk, apples, corn, onions, potatoes, tomatoes, and ducklings; Iowa, dairy products; New Jersey, milk, eggs, apples, asparagus, blueberries, potatoes.

### How Financing Is Done

Reviewing various methods set up by states to finance programs, the survey finds that Washington, Idaho, and Florida levy assessments per unit of production. In New York this holds for milk and in Maine for potatoes. But New York made a lump sum appropriation for farm products other than milk, the money to be paid back to the state by sale of labels to participating producers.

New Jersey authorized the secretary of agriculture to receive money for advertising purposes either as contributions from producers or as proceeds from sale of labels. In Maine a lump sum was appropriated for advertising farm products (except potatoes) and fishery products. Wisconsin followed the same method for cheese. In Florida all assessments on grapefruit destined for cans are spent for advertising the canned product.

The California pro rata act under which prune and wine advertising has been carried on is actually an enabling act through which growers, by a petition signed by producers of a majority of the tonnage, may vote an advertising assessment upon themselves.

### A Profitable Investment

Most state-financed campaigns have paid out, the survey concludes. The Florida Citrus Commission is quoted as figuring each dollar invested has brought \$17 in sales increases. Maine potato growers found new markets and stabilized prices. California wine consumption is increasing (BW—Mar'40, p.35).

In Idaho the increase in average price per bushel received by potato producers in 1938 over 1937 was 60% more than the increase throughout the country.

## Strange Facts about Fire!



OVER 40% OF BUSINESSES WHICH BURN DOWN NEVER REBUILD. NEVER RESUME OPERATIONS. ARE BUSINESS EXECUTIVES FULLY AWARE OF THIS?



**LUX FIRE EXTINGUISHERS** DRIVE AROUND OBSTRUCTIONS. KILL THOSE HARD-TO-REACH FIRES. LUX CARBON DIOXIDE SNOW-AND-GAS REACHES EVERY SMALLEST CREVICE. **CHOKES THE FLAMES.**



IRON, STEEL, AND BRASS SHAVINGS PRESENT AN ACTIVE FIRE HAZARD. **NEVER USE WATER ON FIRES LIKE THIS!** USE A DRY, NON-WETTING EXTINGUISHING MEDIUM. **LUX CARBON DIOXIDE EXTINGUISHERS KILL THESE FIRES FAST.**

**Can you afford a fire? Can, in fact, any plant which is making a profit afford a few weeks' stoppage in any department?**

Are you ready for fire when it strikes? Can you handle electrical fires, blazes in flammable liquids? On fires like these you need LUX extinguishers. LUX kills these blazes with split-second speed. No wetting, no damage.

With a turn of the wrist you open a valve and loose a blast of flame-killing carbon dioxide snow-and-gas. Fast-expanding, LUX gas creeps into every inch of the fire area. Fire can't live!

For ordinary plant protection install LUX portable extinguishers at danger

points. For intense hazards—fuel or paint storage, drying or baking ovens, electric motors—get the sure protection of a Built-In Lux System, automatic or manual control.

**Get the facts on fire extinguishing that's engineered for industry. Send the coupon right now.**

**Walter Kidde & Company, Inc.**

334 West Street, Bloomfield, N. J.

Send me free booklet "Don't Play With Fire" which describes latest fire control methods.

Name \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

## Detroit Edison X-Rays Its Distribution Poles



Working on the thesis that sound wood in a pole will be differentiated from decayed wood after the manner of a dental X-ray, Detroit Edison Co., with this portable X-ray outfit, pictured the innards of a lot of poles on film. Orthodox test methods, by

boring, condemned 28 poles to destruction. X-ray condemned only eight of the 28, plus two more not indicted by boring, giving 20 a new lease on life. Replacement savings are expected to more than pay costs of film, current, extra work.

*Electrical World*

## Auto Dealers Dislike Own Medicine

**FTC fair trade rules which they demanded are no longer to their taste, and neither is the federal control bill on which referendum is now being taken.**

ATTEMPTS to obtain government intervention in the factory-dealer relations of the auto industry have received one setback in recent weeks, and apparently are heading for another.

When the NRA went out, taking with it the "Blue Book" fixing exact trade-in allowances, auto dealers asked the Federal Trade Commission for a substitute. Dealer groups became increasingly militant in their demands for code of enforceable fair trade practice rules. By April, 1938, the drive had resulted in a public hearing by the FTC. Then the Withrow resolution was passed, and FTC's investigation of the auto industry delayed further activities in this direction.

Having investigated (*BW—Jun 10 '39, p16*), the FTC resurrected the fair trade practice code, proceeded to revamp it, and announced a public hearing in Washington, scheduled for Mar. 20. The rewritten rules, however, must have come as a shock to those dealers who have been seeking federal intervention.

FTC's offering is largely a codification of existing laws as applied to automotive

business in interstate commerce. The rules are related mainly to protecting the retail customer rather than the dealer himself. What there is in them about used-car price control is negative, in that they prohibit "unlawful" combinations to control prices.

The dealers' demand for "cancellation (of franchise) for cause only" is relegated to Group 2 of the rules. That means that it is in a section specifically restricted to common consent rules not subject to federal or judicial enforcement.

### More to Auto Makers' Taste

On the whole, the new rules look as if they would receive more support from manufacturers than dealers, and it would be surprising indeed if dealers did not oppose their adoption, at least as they now stand.

Whether the FTC took this means to show its dislike for the proposed "Motor Vehicles Industry Act of 1940" (fostered by one faction of dealers), or to dampen dealer enthusiasm for federal regulation, is anybody's guess.

The Mar. 20 hearing date puts the dealer body as a whole at a disadvantage. Returns on the referendum now being conducted by the National Automobile Dealers' Association to determine dealer attitude on the proposed federal legislation (regulating the industry under a broadened FTC jurisdiction) will not be completed until after the hearing.

If the dealers go on record against the bill, they will find themselves in the anomalous position of having to oppose both major results of activities which they themselves set in motion—the bill and the fair trade practice code.

It is too early, of course, to predict definitely the outcome of the referendum, but if dealer sentiment already indicated (*BW—Feb 3 '40, p36*) holds true, the bill should be voted down by a large majority.

### Wary Association

With business continuing at fairly good levels, most dealers are likely to prefer present conditions rather than federal control with all the unknowns it might entail. The bill would give the FTC practically a free hand. The N.A.D.A. itself, at its annual convention last month, entered no specific recommendations of its own. In submitting the bill to dealers by mail, the association inclosed briefs both for and against it.

Lack of confidence in Rep. Wright Patman, who offered to sponsor the federal regulation bill, was evident at the convention. The Texas congressman had hoped to gain N.A.D.A. support for his chain store bill in return for his good offices, but he was roundly booed by some of the delegates when he addressed them.

Aside from the prohibition on trade-in allowance agreements, and a general ban on false advertising, the most significant of the new rules proposed by the FTC are as follows:

(1) A rule outlawing "packing" of delivered charges as well as of finance charges.

(2) Prohibition of selling drive-away cars as new cars.

(3) A rule (No. 23) which may be interpreted as meaning that manufacturers may not be able to insist on the use of "genuine" parts by dealers.

(4) A coercion rule emasculated to cover only finance and insurance questions, and such factors as would "bring about a substantial lessening of competition."

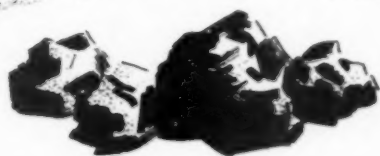
(5) A rule against preferential discounts, which contains a clause apparently permitting retention of factory fleet discounts.

### Retailers' Crusade

VARIOUS RETAIL TRADE ASSOCIATIONS have made sporadic attacks on "privilege buying"—the diversion of their trade to real or phony wholesale houses. Mostly, these campaigns have fizzled. Sole exception has been the crusade carried on by the

1940  
85  
YEARS  
NATI

# The Case of THE VANISHING BLACK DIAMONDS



THE General Manager swung back from his desk, a sheet of paper in his hand—a frown on his brow.

"Look what it cost us to heat our plant last month. Are you buying coal?" he snapped at the Purchasing Agent, "or diamonds?—Black diamonds," he snorted, apparently pleased with the phrase.

The Purchasing Agent shook his head. "Don't blame me. Ask the Engineer. It isn't the price we pay for coal—it's those bottomless boilers. They steal our coal faster than I can have it hauled in."

When the engineer was tackled, the truth came to light. "Sure we have been burning too much coal," he admitted, "but it will be different from now on. The Crane salesman and I talked about it this morning and here's the answer. The condensate from

the steam line piled up in the unit heaters—made it impossible for the steam to get through. But it's fixed now. We put Crane steam traps on the return line from each heater. That's Preventive Maintenance."

It's often small troubles, easily corrected, that cause major operating losses. Just putting in new valves of the same type is no solution. Preventive Maintenance calls for an analysis of the situation—and a correct application of the *right* valve to prevent the recurrence of the trouble.

Crane Co. will gladly cooperate with your Plant Superintendent, Engineer or the man responsible for piping maintenance in your plant to assist him in spotting sources of trouble. Preventive Maintenance, applied to your piping lines may save many dollars for you.



No. 981 Crane Inverted Open Float Steam Trap



# CRANE

CRANE CO., GENERAL OFFICES:  
836 S. MICHIGAN AVE., CHICAGO

VALVES • FITTINGS • PIPE  
PLUMBING • HEATING • PUMPS

NATION-WIDE SERVICE THROUGH BRANCHES AND WHOLESALERS IN ALL MARKETS

## ATTENTION!

Everyone with  
Copying Problems



### HUNTER Electro COPYIST Makes TRUE COPIES Faster!

No matter what you have to copy—if it's written, drawn, typed, printed or photographed—HUNTER Electro-Copyist will do it for you in a jiffy! Can't make a mistake! No darkroom—no skill required to operate it. Flip the switch—a few moments exposure and processing—and there's your copy!

WRITE  
NOW

You'll be amazed at the wide variety of copy jobs this device will do for you. Saves you work, worry and DOLLARS! Does what other copying methods can't do. Write for valuable FREE folder on users experience TODAY!

HUNTER ELECTRO-COPYIST, INC.  
105 E. Fayette Street Syracuse, N. Y.

Hunter Electro COPYIST

National Retail Furniture Association in recent years. As predicted last summer (BW—Aug 19 '39, p. 28), the campaign is now being taken over by the American Retail Federation, which is a super-association made up of various retail trade associations and individual companies. The furniture association has done much of its missionary work with executives of industrial corporations, asking them not to permit their purchasing departments to be used for individual employee buying. The A.R.F. will use similar tactics, but will be able to blanket the country.

### Mobiloil's Elizabeth

SOCONY-VACUUM scored one of the most spectacular advertising-news tie-ups on record when the Queen Elizabeth, newest and biggest of superliners, made her secret dash from Scotland to New York. As the big gray ship slipped past the Statue of Liberty, the first evening edition of the New York *Sun* hit the streets carrying a 1,500-line Socony-Vacuum ad, chiefly devoted to a picture of the Queen Elizabeth, taken while the ship lay off quarantine at 6 A.M. that morning. That was Thursday, and by Friday the same ad had run in 500 papers from coast-to-coast. Meantime, Socony-Vacuum was also using spot radio to let America know that the Queen Elizabeth was lubricated with Mobiloil.

## LABOR AND MANAGEMENT

### Two-Edged Bargain

Union hosiery workers, in role of owners, adjust their difficulties with C.I.O. unit.

PHILADELPHIA'S 500 hosiery workers who own the Hancock Hosiery Mills have solved the dilemma they found themselves in last week—union trouble with themselves—by agreeing to a full union wage scale, a closed shop, a checkoff on dues, and by signing a union contract for a year.

Story of how these union members came to be picketed by other members of the same union began last September when the Interstate Hosiery Co., Inc., folded after 44 years of operation, throwing 500 men and women out of work. The workers decided to form their own company, quickly incorporated, and bought shares of stock in the venture at \$150 a share (BW—Oct 14 '39, p. 52).

### Workers Branded "Unfair"

Not long ago, in order to step up production, they accepted orders for 7,500 dozen pairs of hosiery a week at prices which would call for wages below prevailing union rates. Hancock was immediately put on the "unfair" list of the C.I.O. American Federation of Hosiery Workers and a picket line was instituted when wage cuts were announced.

Terms of the settlement looked good to the union and Hancock. The new contract means that about 50 workers will have to join the C.I.O. in fulfillment of the closed shop agreement. Hancock workers were pleased, since it removes them from an embarrassing position.

### Rivals Don't Like Kick-Back

Other hosiery manufacturers in Philadelphia, however, were not happy about the way the difficulty has been solved for they point out that the prices quoted on Hancock's orders call for work at less than union wages, and it looks as though the stockholder-employees will have to kick-back with part of the wages they get in fulfillment of the new union contract. This may lead to more trouble, for Hancock's competitors fear that continued use of the kick-back would give Hancock a material advantage when quoting on competitive prices.

And, although Hancock employees returned to work last week without having to cross picket lines, the employee-stockholders were afraid their venture isn't as yet entirely out of the woods for they still have to contend with a reported inopportune raw silk purchase, orders at such low prices as to preclude a profit, and a production schedule which has been at only one-fifth of capacity for the past few weeks.



I DO NOT WANT  
GUESSING . . .  
I WANT FACTS!

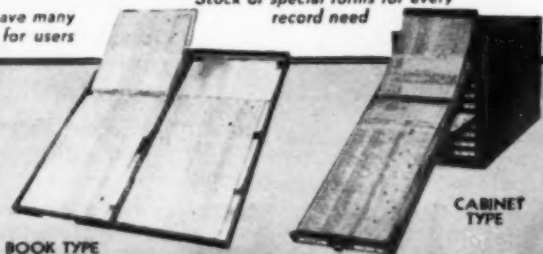
Modern business cannot afford guess work—it needs to know the facts about sales, credit, stock turnover, accounts receivable, payroll, purchases, etc. The Globe-Wernicke visible record system provides accurate, complete information and can be applied to every department of your business or profession.

Let a Globe-Wernicke systems expert study your present methods and recommend card forms and visible record equipment that will enable you to know the important facts about your business—instantly. There is no cost or obligation for this service. Consult your local dealer or write direct to us.

Patented features have many  
distinct advantages for users

Stock or special forms for every  
record need

Both book and cabinet type  
equipment are available for  
any size business . . . the  
Globe-Wernicke visible  
book is ideal for a small  
business.



BOOK TYPE

CABINET  
TYPE

The Globe-Wernicke Co. . . CINCINNATI, O.

## Salmon Cannery Union

West Coast firms operating in Alaskan waters will negotiate with labor as a unit.

ANOTHER "BOSS UNION" goes into action on the Pacific Coast. Organization details of Alaska Salmon Industry, Inc., were completed in Seattle last week and Henry Van Hoevenberg, former assistant to the president of the Association of San Francisco Distributors (warehouses), was appointed manager.

A.S.I. officials immediately began contract negotiations with the score of sea and shore unions who supply the hands needed to catch and can the salmon produced by American concerns in the Alaskan areas.

Packers participating in A.S.I. represent about 90% of total Alaskan production, which last year comprised about 87% of the entire U. S. pack and 55% of world production. The other producing areas are on the Columbia River and Puget Sound. Organization of A.S.I. makes effective an early prediction that the salmon cannery would be the next West Coast industry to organize for collective bargaining and master contracts with unions (*BW*—Apr 22 '39, p. 32).

### Competing Economic Pressures

Labor relations in the salmon industry always have been as turbulent as the waters on which the salmon trollers sail to catch the reds, pinks, and chums that appear later in cans with enticing labels on the shelves of the nation's food stores. Since about 1880, when a daring, lone packer began operating in southeastern Alaska (and packed 6,500 cases the first year), negotiations with the fishermen and cannery workers have been ruggedly individualistic.

About February each year there began a series of complicated and bitter poker



Pacific Fisherman

Henry Van Hoevenberg manages the newest West Coast employers' union, the Alaska Salmon Industry, Inc.

WHERE YOU NEED IT . . .

WHEN YOU NEED IT



9-LB. CHAMPION

A PROBLEM-SOLVING, PRECEDENT-SHATTERING ADDING MACHINE

BUSINESS has been waiting for this one! A fine, full-duty adding machine—at little more than the cost of a portable typewriter. A telephone-size, desk-corner box of figure magic—nine pounds of airplane-engineered strength, lightness, and streamlined beauty. A new right hand for business—putting figures at your fingertips, at office or home, on plane or train. . . . Choose either full or ten-key keyboard, in the capacity you need—9,999.99 for \$47.50; 99,999.99 for \$55.00; 999,999.99 for \$70.00—each with totaling capacity ten times its keyboard. Victor Electrics, approved by big business for twenty-two years, range from \$114.50 to \$219.50. Write for informative booklet. . . . Victor Adding Machine Company, 3900 N. Rockwell St., Chicago

EITHER KEYBOARD \$55



CAPACITY, 99,999.99  
OTHER "TWIN" \$47.50  
AND \$70.00

VICTOR  
ADDING MACHINES

games between packers and unions. Ships must sail from San Francisco and Seattle shortly after mid-May for the one-month fishing season in Alaskan waters, which begins about June 25. As the deadline approached, negotiations would become more bitter, the unions holding out for all they could get, and frequently bringing pressure by picket lines, the operators stalling as long as they could. Employers' trump card always has been the threat to cancel the season's operations, leave fishermen on the beach and cannery workers jobless, and "live on" the carry-over which, of late years, has been large.

Since 1934, salmon industry unions

have presented a more or less united front to employers and have managed to jack up the average industry wage by 120%. Last season, wages increased about 6% in the Alaskan operations.

Negotiations for the 1939 contracts were particularly bedeviled by bitter inter-union fights and ships sailed for Alaska only in the nick of time. The packers got squarely in the line of fire between Harry Bridges, California C.I.O. director, and Harry Lundeborg, secretary of the A.F.L. Sailors' Union, whose sniping operations frequently enliven the West Coast waterfront labor scene (*BW*—Apr 22 '39, p. 32). Many leaders in the

## Grounds for Disagreement



When the I.R.T. and B.M.T. subways are taken over by New York City in May, their 27,000 workers will become civil service employees, according to Mayor La Guardia, "with no right to strike and no closed shop." But Michael Quill (above), head of the Transport Workers' Union (C.I.O.) promises the mayor a walkout if that happens.

industry determined that before contract time came again a united employer front would be formed. A.S.I. is the result of conferences by this group.

The new organization started negotiations last week with one decided asset. Several 1939 agreements included clauses providing for automatic renewal in 1940 unless either party served notice of termination. The salmon cannery division of the A.F.L. Machinists' Union is the largest of several groups to notify employers they want last year's contracts continued. Several others are demanding changes, notably the C.I.O. Alaska Fishermen's Union and the C.I.O. Cannery & Agricultural Workers' Union.

A.S.I. will have 21 directors elected by operators in each of seven Alaska areas in such a way that both large and small packers are fairly represented.

### Forestalling Costly Disputes

General objectives of the new group follow closely those of the pioneer San Francisco Employers' Council. A.S.I. will: (1) Devise a long-term program to avoid labor disputes before trouble occurs; (2) represent members as a unit in negotiating and executing contracts; (3) see that contracts are kept by all parties concerned; (4) set up permanent machinery for making and interpreting contracts and settlement of disputes arising

**dag**  
TRADE MARK OF  
COLLOIDAL  
GRAPHITE

# SURVIVES FIRE...

... without losing its lubricating properties even at temperatures of 1800°F and upwards in ceramic and glass making machines; in conveyors and baking ovens, in die casting and permanent mold equipment.

"Dag" outlasts temperatures that burn petroleum oil, thus lubricants can be prepared by dispersing this product in fluids that quickly evaporate at the higher temperatures. Only a positive, clean lubricating film of pure "dag" colloidal graphite is left which becomes affixed to the bearing surfaces. "Dag" makes an ideal teammate for oil, as it takes over the load at the point beyond which plain lubricants fail.

A note on your letterhead will bring a production sample and Technical Bulletin 130 which tells how to use "dag" for high temperatures . . . you or your oil supplier can easily add "dag" to your present lube or to specially selected petroleum fluids.

**ACHESON COLLOIDS CORPORATION**  
PORT HURON, MICHIGAN



ing thereunder; (5) compile factual data on the industry.

Tall, husky, gray-haired Henry Van Hovenberg, ex-football coach at Columbia University, selected last week as manager of A.S.I., learned the employers' union technique in San Francisco as assistant to President James Reed of the distributors' association. He has been chairman of labor relations committees for both the Oregon-Washington Pear Bureau and the Southern Oregon Fruit Growers' Association.

Operations in the Bristol Bay area of Alaska will be cut about 50% below normal this year as a result of restrictions issued by the Department of the Interior, the most severe in many years.

## Staying in St. Louis

**Emerson thanks C.I.O. unit for offer of \$100,000 loan, but declines it for the present.**

ANSWER TO THE PROBLEM of how a community is going to keep an industry that has been offered attractive inducements if it would move to another city may have been left up in the air by St. Louis last week, but at least the Emerson Electric Manufacturing Co. has decided to maintain its present plants instead of transferring from St. Louis to Evansville, Ind., as has been contemplated for the last three months (BW—Jan 13 '40, p. 40).

Company employees breathed easier after the board of directors made this decision. As a matter of fact, worried about the possibility of seeing their jobs slip out from under them, the local unit of the C.I.O. United Electrical, Radio, and Machine Workers' Union had just the day before voted a loan of \$100,000 to the company if it would stay where it was. Emerson directors decided against acceptance of the loan, but said the company might avail itself of the loan to defray the cost of moving machinery and material to a new plant, which it will begin to build immediately, if the move is made within the next two years.

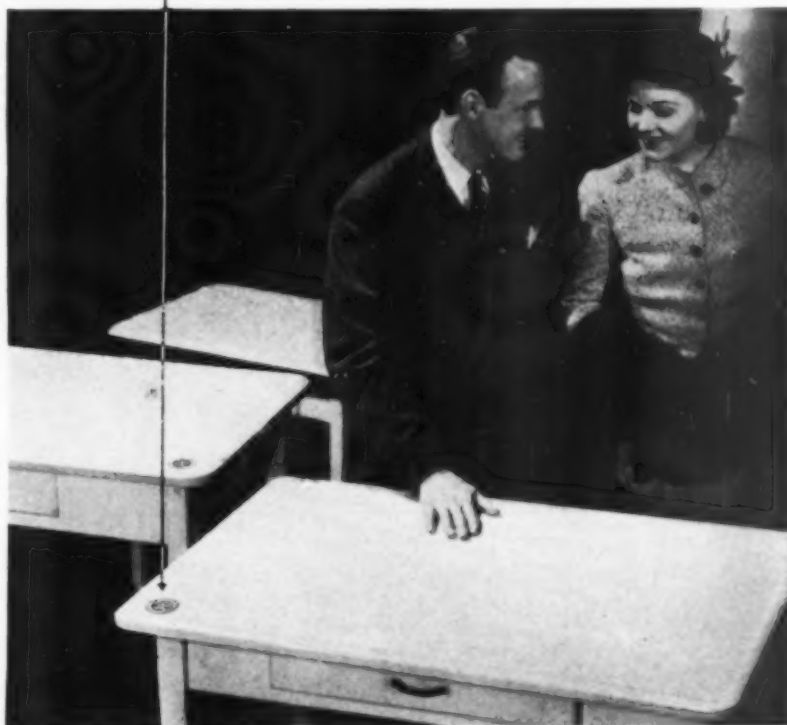
## Challenge to Community

The whole problem arose last February when industrial engineers told the directors that the concern's 50-year-old plant, spread among five separate buildings, was uneconomical. In December, the union issued a four-page pamphlet calling the situation to the attention of about 1,000 business, civic, and religious leaders and charging the latter with failure to make any effort to keep the plant in St. Louis.

Evansville stepped in and offered a free factory site, plus a \$150,000 bonus to cover moving costs, in response to letters sent to some 100 small industrial centers by the company. The St. Louis Chamber of Commerce formed a sub-committee to consider the situation, but

## HOW TO MAKE A RETAIL SALESMAN

*want to push Your Goods*



**S**ALESMEN, like everybody else, are inclined to work along the lines of least resistance. Other things being equal, they'll put their selling effort behind the product easiest to sell.

And the easiest product to sell is the one which offers the greatest assurance of value for the money.

This is particularly true of highly competitive steel specialties where the consumer has wide choice. One exclusive advantage may be all the salesman needs to close the sale for a certain make.

We offer such an advantage to any approved user of U-S-S Steels—proof to the customer that you have put into your product that "extra something" only a fine steel can give—the U-S-S Quality Seal to go right on your finished product.

And to make that seal important, we are telling millions of consumers, through im-

pressive national advertising, what that seal means and where to look for it—and telling the retailers how to use it to increase their sales of steel products.

It's a plan well worth looking into. Several hundred manufacturers already are profiting by it. Write today for the complete story on the U-S-S merchandising plan for steel products and how it works.



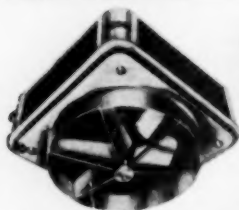
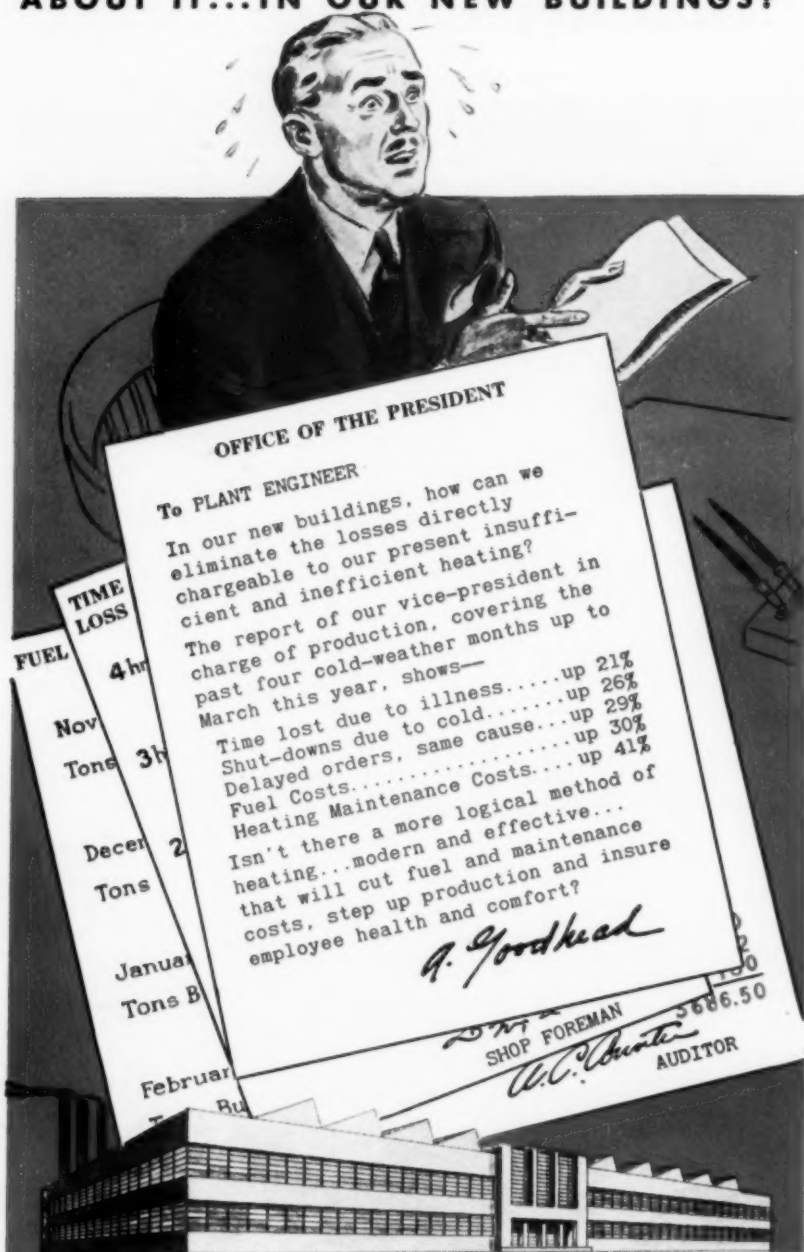
**THIS SEAL**, in appropriate sizes and colors, is supplied free to manufacturers using the general group of U-S-S Steels. Other seals are provided for specific steels such as Stainless, Vitrenamel, Copper Steel, Premier Spring Wire. This mark adds to your product all the prestige created by U-S-S advertising promotion.

**AMERICAN STEEL & WIRE COMPANY, Cleveland, Chicago and New York**  
**CARNEGIE-ILLINOIS STEEL CORPORATION, Pittsburgh and Chicago**  
**COLUMBIA STEEL COMPANY, San Francisco**  
**CYCLONE FENCE COMPANY, Waukegan, Ill.**  
**TENNESSEE COAL, IRON & RAILROAD COMPANY, Birmingham**  
 Scully Steel Products Company, Chicago, Warehouse Distributors  
 United States Steel Export Company, New York

# UNITED STATES STEEL

# The President Begged.

*"What ARE WE GOING To Do ABOUT IT...IN OUR NEW BUILDINGS?"*



New Vertical Delivery Model

MODINE MANUFACTURING COMPANY • 1740 RACINE STREET • RACINE, WISCONSIN

## MODINE

The UNIT HEATER with the Cone-Jet Deflectors

no offers were forthcoming, despite the fact that loss of the Emerson Co. payroll of 1,250 employees would mean a noticeable reduction in purchasing power.

Grateful directors voted tangible thanks for the loan offer in the form of a plan whereby 15% of the net profits of the company after preferred dividends have been paid will be distributed to employees.

### They Tell the Boss

And Saks-Fifth Avenue finds employee "directors" have ideas that mean money for store.

EMPLOYEES almost always think they can run a business better than the management. And since they have an entirely different slant on things, they may be right in some cases, in the opinion of Saks-Fifth Avenue after four months of experience with an employees' Board of Directors. The results of the plan are better store management and vastly improved employer-employee relationships, declares the store, as well as improved service.

Basically, the plan gives a new twist to the old idea of scheduling get-togethers of executives and employees. But instead of deteriorating into meetings where the executives talk and the employees listen, these have worked out differently—so differently, in fact, that Saks expects to save about \$15,000 in the next year for listening to just one employee.

The set-up works this way: Saks' 2,000-odd employees are divided into groups of 40, each one of which elects a member of the Board of Directors. These 50 men and women then meet with the store's top executives every two weeks for a three-hour dinner and discussion. As an incentive, they are paid "directors' fees" of \$5 for every meeting they attend. Later in the week, these directors meet for discussion with the members of their "constituencies."

### No Taboos Imposed

Agenda at the directors' meetings take in all phases of management problems and policies—including the ones that many companies put on the hush-hush list. Topics range from "no smoking" signs in the elevators to employees' rating sheets.

Saks executives point to one suggestion growing out of an evening's discussion that they estimate will save a tidy sum in customer good-will—the elimination of red-tape and delay in following up special orders. Each Saks department had followed more or less its own fancy in placing special orders for customers; there were 13 forms being used. Now one standard form has been adopted and a clerk has been added to the staff to do nothing but follow up to see that customers re-

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ceive their special orders on the day promised or are telephoned ahead of time regarding delays.

If the management had begun this "policing" service (to see that clerks do not forget the customer as soon as she walks out of the store), clerks might have resented the idea. Since it was an employee's suggestion, both executives and their workers are pleased.

Employees are reported enthusiastic about the plan, for it gives each one the feeling that he is an integral part of the store, instead of an impersonal cog. Saks realizes that it's to their advantage that employees should feel that way, for when Mrs. Green walks into the store, she doesn't make her purchase from the president, but buys from Maizie Brown at counter 2, aisle 6 and forms her opinion of the store from the impression she gets of the clerk, the elevator boy, the porter, the way her package is wrapped, and the delivery man.

## College in a Factory

Labor relations are studied in course for promoting employee-management cooperation.

A "LABOR RELATIONS COLLEGE" with classrooms in a factory, indorsed by labor leaders and industrial officials, and with more than 200 union and management executives enrolled as students, got under way in the Oakland plant of The Paraffine Companies, Inc., San Francisco, last Thursday. Objective is to "promote employee-union and management cooperation."

The course is an ambitious extension of the company's training class for shop officials which graduated 25 men with the degree of "B.L.R.," bachelor of labor relations, about a year ago (BW—Jan 21'39,p.25) and attracted nationwide attention in industry.

Student body of Paraffine's new "college" includes union business agents, union shop representatives of the factory's 1,500 employees, and the factory supervisors' force. Faculty is composed of labor leaders, university professors, industrial executives and editors. Howard C. Wells, who is the Paraffine factory personnel manager, is in charge of classes.

One night session of two hours is held weekly and the course continues for 40 weeks. Paraffine employees attending classes are guests of the company at dinner.

## Finding a Common Ground


Originator of the "college" idea is Henry W. von Morpurgo, 30-year-old director of public and industrial relations for Paraffine. He was troubled by the lack of understanding shown by the company's older shop foremen of how unions function and what they are trying to ac-

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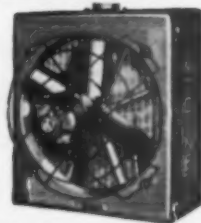
*W. J. Marling*

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# MODINE

The UNIT HEATER with the Built-In Safety Fan Guard



Standard Model

MODINE MANUFACTURING COMPANY • 1740 RACINE STREET • RACINE, WISCONSIN



In the Paraffine Companies' "labor relations college," union members learn about management problems; management, about union aims.

comply, and by the arrogance of some of the younger union men toward management's problems. He wanted to establish a common ground on which both extremes could meet and learn the strength and limitations of unions and

management. A training class for shop officials was conducted early last year and, later, courses were held for superintendents and foremen. The company considered these successful enough to warrant the present ambitious program.



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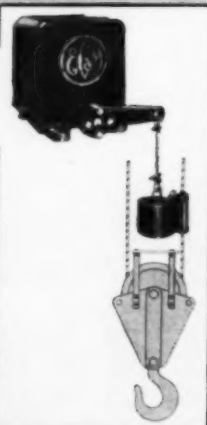
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specify it when you order  
**MOTOR CONTROLS · BRAKES · LIMIT STOPS · MAGNETS**



## LABOR ANGLES

### A Point Lost

THE DONNELLY GARMENT CO., of Kansas City, which has been battling unionization for a long time, lost a point last week when the National Labor Relations Board ordered it to disestablish an independent union, which the board said was company-dominated. The NLRB also ordered the company to cease giving effect to wages and hours contracts with the company group.

In 1938 the company obtained a restraining order preventing the International Ladies' Garment Workers' Union from making allegations that Donnelly was "unfair" in its labor policies (BW—Nov 13 '37, p.28; Jan 8 '38, p.30). Now the I.L.G.W.U. may get a chance to step in again and organize the Donnelly workers.

### Freedom of the Press

A SUPERIOR COURT JUDGE in Chicago threw the book at the American Newspaper Guild and its Chicago local last week when it upheld a Chancery Court's decision to fine the two organizations \$5,000 plus \$4,176 in court costs, in connection with their continued use of handbills to picket advertisers who use the Chicago Herald-American.

When union members first went on strike in 1938, against the now defunct Herald & Examiner, they set out to keep advertisers away from Hearst; they even picketed stores and accosted advertisers' customers. The paper obtained injunctions against A.N.G. and the Chicago Guild prohibiting picketing, coercion, or intimidation of advertisers. The Guild (still striking against Hearst's Herald-American) promptly started to pass out handbills in the vicinity of advertisers' stores.

Last September, the Chicago unit was fined \$500 for violating the injunction, and that case is now in the Illinois Supreme Court on appeal. Distribution of handbills continued and last week the court made a bigger levy on the strikers' pockets.

### Add NLRB Powers

LATEST PRONOUNCEMENT of the Supreme Court on the powers of the National Labor Relations Board is that the NLRB has the right to step in and tear up individual contracts between employers and employees which contain clauses violating the Wagner Act. The decision resulted from the National Licorice Co.'s challenge of the board's authority to declare contracts void without bringing in employee-signers as parties to the proceeding. The court made it clear, also, that the rights obtained by the workers under those contracts cannot be nullified, even though the written contract is no longer valid.

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**T**HE Ford V-8 Truck is built to give you *more work, in less time, at lower cost.* The Ford V-8 engine — your choice of 95, 85 or 60 hp — combines economy with endurance and great power. Ford dependability means longer truck life and lower maintenance costs. Because each Ford unit is built to stand up in hard service, repairs are fewer. . . . The Ford Engine and Parts Exchange Plan assures new-truck performance at all times. Factory-reconditioned engine and many factory-reconditioned parts can be installed

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## FORD V-8 TRUCKS

AND COMMERCIAL CARS

## PRODUCTION

PRODUCTS • PLANT • PROCESSES

### Velvet from Static

**Electrical process used in coating sandpaper now adapted to making fine dress goods.**

FOURTEEN YEARS AGO, E. C. Schacht invented and made his first experimental run of sandpaper "coated by artificial lightning" at the Behr Manning Corp. plant (division of Norton Co.) at Watervliet, N. Y. It is hard to suppose that he and his associates had more than a glimmer of an idea that the same electrostatic method would be used today to make velvet. Yet out of the experiment grew an impressive United States and foreign patent structure which blankets applications both to abrasives and to textiles.

Briefly, the same old radio devil, "static," which in another form makes hair stand on end, has been harnessed for apparently antithetic industrial purposes—adding abrasion to abrasives and silky softness to velvet. Since 1932, when large scale exploitation of the electrocoating process began, Behr Manning and its licensees in the United States, Canada, England, France, and Germany have made many millions of dollars worth of abrasive paper and cloth coated under one or another of the patents.

#### Profit from an Old Principle

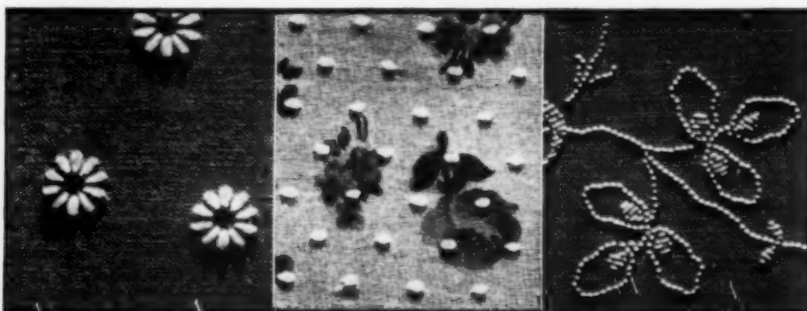
The underlying principle is the same one that is demonstrated whenever a high-school physics instructor rubs a dry wooden rod or a piece of hard rubber vigorously with a piece of woolen cloth, or an amber rod with a piece of silk, thus causing bits of tissue paper to stand up straight before jumping in straight lines to the rod and sticking there as straight as soldiers. That's what is being done with crushed flint and garnet to make sandpaper and with cotton, rayon, or wool fibers cut to uniform lengths to make velvet of various types. Sole difference is the power of electrical charges

used, which may run from 40,000 to 100,000 volts at low amperages.

Static electricity not only has the power to polarize the bits of rock or fiber, forcing them to be attractive to a surface of opposite polarity, but to make the bits electrically repulsive to one another so that they "orient" themselves into even spacings. When paper or textile is first coated with a suitable adhesive, the end of each little rock or fiber is virtually shot into its surface to stay. Strangely enough, the research to find suitable adhesives, which are mainly based on synthetic resins, has taken more time and toil than the harnessing of artificial lightning. The electrostatic equipment has long since been standardized. A belt conveyor carries rock or fiber into the electrostatic field. Moving over the belt is a ribbon of adhesively coated paper or cloth. The particles jump up, and the job is done—all except a cure in high heat to "set" the adhesive.

Beginning in January of this year, Arnold Print Works of North Adams, Mass., which has been cooperating with fifteen Behr Manning men in textile research, has been marketing the Fibredown line of fine women's dress goods on which polka dots and dot patterns of various fibers cut to precise lengths have been applied electrostatically. Laundry and dry cleaning tests indicate that the dots cling to the fabric with all the intensity of embroidery. Already, millions of yards have been sold. Soon there will be fabrics for curtains and draperies.

Meanwhile, Behr Manning has developed the Norzon line of electrostatic velvets, with 300,000 longer cut fibers to the square inch held by vulcanized latex rubber. These materials are undergoing exhaustive tests at the hands of two of the largest automotive manufacturers for use as linings in the tops and sides of 1941 closed cars, possibly as upholstery materials on cushions. Next step may well be the electrostatic application of  $\frac{1}{4}$ -in. wool fibers to make rich deep pile carpets.



Raised cotton dots on these textiles are "electrically applied by artificial lightning"—a process like that used in making modern sand paper.

### Conquering Clinkers

**Experiments in burning low-grade coal may spell comeback for Rocky Mountain mines.**

BACK IN 1928, a 24-in pipe line snaked up from the Texas Panhandle to Denver, bringing cheap natural gas and a load of grief to the Rocky Mountain coal industry. Plentiful fuel oil added still more grief. Production of Colorado coal faded from 9,900,000 tons mined in 1929 to 5,700,000 tons in 1938, though it should be added that the latter figure represented a depression year for coal mining generally. In Denver, this year, it is said that only one new house in 50 is equipped to burn coal.

In 1938, the U. S. Bureau of Mines established a new coal experiment station at Colorado School of Mines to cooperate with its state-owned laboratory, both serving an area consisting of Colorado, Wyoming, Montana, North Dakota, and Texas. Although the first four states have more than half the coal reserves of the nation, the grades run from a limited supply of anthracite down through more ample supplies of bituminous to vast quantities of subbituminous or lignite. The latter has long given headaches to heating engineers who sought to burn it in standard "eastern furnaces" without undue slag and fly ash.

#### A Break for Householders

Now the president of Colorado School of Mines, Dr. M. E. Coolbaugh, reports that real strides are being made in designing and testing special equipment to burn lignite with economy and satisfaction. Already it has been determined that larger fireboxes will help to do the trick if used in combination with special devices for trapping fly ash. A special central heater built to service a 31-unit block of detached dwellings on the school campus is showing satisfactory results. Formerly heated individually by gas, with monthly bills to each householder running as high as \$34 per month, the houses are comfortable and the householders serene with monthly coal bills of about \$3 each.

The Bureau of Mines station is making carbonization tests on the various types of western coals and conducting research into ways and means of storing those which "slack" considerably upon exposure to the air. It is also encouraging the mines to adopt more modern machine mining methods. Rocky Mountain Fuel Co., second largest Colorado fuel producer, has hired William T. Taylor, of Coal Management Co., Cleveland, to get its coals out on a modern basis. Already he has completely modernized Columbine mine, the company's largest, and is now readying Industrial mine for mass production. The company has coal reserves for 1,200 years of mining.



*Your local agent will tell you:*

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WHERE'LL WE STAY IN ST. LOUIS?



## Science Seeks Oil in Vineyards

California researchers believe they have key to commercial exploitation of grape seed. Progress already reported in applying solvent method to rice bran.

A LOT of California vintners may be surprised some day next week to find in their morning mail a plea for supplies of wine grape seeds to be used as a source of vegetable oil. A group of Berkeley private researchers who have been groping for a commercially feasible method of producing oil from the seeds by the solvent method believe they've found the answer and they want substantial quantities of grape seeds in order that they may prove

it to skeptical but hopeful wine producers.

Vintners' hopes will rise when they learn that Paraffine Companies, San Francisco, one of the major Coast paint manufacturers, has been quietly perfecting new paint formulae in anticipation of the day when sufficient supplies of grapeseed oil become available. Paraffine officials will soon announce that their formula adjustments are completed and they are now prepared to use 40,000 lb. of grapeseed oil monthly when they get it. Meanwhile West Coast petroleum companies, anxious to compete in this fast growing market, are working their laboratory technicians overtime to develop a process for refining drying oils from petroleum bases.

### Vintners Have Eye On Process

Up to now the ground-poisoning, stream-polluting pomace (residue from wine grape fermentation) has been an exasperating waste-disposal problem to vintners. With envy they've eyed their confrères in France, Italy, and Germany who have developed highly-efficient solvent methods for extracting 98% of the oil content of grapeseed for use in the manufacture of paint.

At the present time, grapeseed oil is extracted in this country only from raisin seeds and only by the carefully-guarded hydraulic crushing process of the Calif. Grape Products Co., of Fresno.

It's no wonder the vintners are interested. They had 800,000 tons of wine grapes (320,000 tons of pomace containing 80,000 tons of oil-bearing seed) unused from last year's crop, a situation comparable to that in the cotton industry before the extraction of cottonseed oil.

### Hit by Far Eastern Warfare

Paint manufacturers would be among the largest consumers of grapeseed oil, especially as they were hard hit by increases of 25% in price of linseed, 60% for perilla and 80% for tung oil last year resulting from restrictions of the Sino-Japanese war on shipments of tung, perilla, soybean and other paint oils from the Orient. Oiticica oil, the tung oil substitute from Brazil, advanced about 37% in price.

Tests are stated to have shown that grapeseed is one of the most satisfactory of domestic drying oils with the necessary hardness, color and texture, and an iodine



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content of 135 (140 parts of iodine to 1,000 parts of oil are needed for a full-drying oil).

The grapeseed oil developments are only the latest phase of an ambitious effort by West Coast agriculture to grab a share of the fast-growing fats and oil market by recovering values from farm waste.

With heavy production in several crops of high oil content, Coast business regards two facts as significant: (1) the nation's vegetable oil consumption is increasing; (2) importations are decreasing.

Total consumption in the United States reached a high of 8,425,000,000 lb. last year, 325,000,000 lb. more than in 1938. Meanwhile, production decreases in Asia and an acute shortage in Europe caused 1939 imports to fall off 3% and exports to increase 61%.

### Solvent Process Helps Growers

Californians are making considerable progress in extraction of vegetable oil from rice by the solvent method. (About 90% of Europe's total oil extraction is by solvents and 90% of America's recovery is by the less-efficient pressure process.)

Although the United States imports 10,000 tons of rice oil annually from Japan, largely for manufacture of soap, several times that amount is left in the rice bran and polishings at American mills. California mills 500,000,000 pounds of rice yearly of which 7% to 8% is oil-bearing bran and from 2% to 3% polishings, with an oil content of from 9% to 20%. Under present expensive pressure extraction methods, which leave an oil content of from 5% to 6%, very little of the waste can be economically processed. That's why development of the solvent process is important to rice growers.

Incidentally, a ton of untreated rice bran selling at around \$20 for poultry feed contains approximately \$20 worth of oil. Strangely enough, if this \$20 worth of oil is extracted, the residue is worth approximately \$22 a ton as feed, because the treated mash is of higher protein content and not so likely to turn rancid in storage.

### Fruit Waste Next on Agenda

Next California farm chemurgic research job to be tackled centers on recovery from fruit waste. Golden State canneries process more than 50% of the nation's output of 10,000,000 tons of fruit of which from 20% to 50% is trimmed and wasted. Chief assignments of the western regional laboratory of the U. S. Department of Agriculture, now under construction near San Francisco (to be opened next fall) will be along this line. The laboratory is one of the four set up under the Agricultural Adjustment Act of 1938. Others are under construction in Philadelphia, New Orleans, and Peoria.



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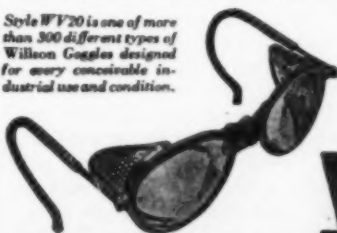
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*William Garity, Walt Disney's chief engineer, shows the chief the operating control panel for air-conditioning equipment in the animation building of the new Disney studios.*

## No Dust for Disney

**New studio city features elaborate air-conditioning job to cut peculiar production hazards.**

WALT DISNEY'S 1,200 employees will move into their new, 19-unit, \$3,000,000 "studio city" in the San Fernando Valley near Hollywood early next month, accompanied by the usual publicity fanfare.

Newspapers and fan magazines probably won't say much about one angle of particular interest to business, the complete air-conditioning job developed by engineers to cut down dust, dirt, noise, stray draughts, and other hazards to the peculiar type of movie production turned out by the creator of "Snow White" and "Pinocchio." The press agents will content themselves with the claim that Disney has built "the first completely air-conditioned studio city in the world."

Disney photographs a sequence of scenes drawn and colored on celluloid (24 for one second of action on the screen) and a single particle of dust on a painting produces light effects and halations which spoil the picture. Only entrance to the new camera building is through a "de-dusting" chamber where employees and visitors are frisked for dust. High velocity air jets from the air-conditioning system blow loose particles from the clothing and draw them down through a grating to the floor. Incidentally, on its way outdoors, the same air is routed to cool the motor-generator sets which supply electricity to the cameras.

Camera rooms will be cleaned and polished to the nth degree. Floors will be waxed and employees wear lintless clothing. In recent tests by General Electric Co. engineers, who designed and in-

stalled the air-conditioning system, white, fine-mesh cloth mats placed for five hours in front of the grilles through which fresh air reaches the camera rooms showed no sign of lint nor dirt.

Camera room air-conditioning is reproduced in the cutting building and in the storage vaults where the celluloid paintings are kept at even temperatures and humidities so as not to disturb the all-important registry of one cell with another, and to protect paint from deterioration.

### A "Shushing" System Too

One tough job for the engineers was to design and install the air-conditioning system in the recording building so that operating and outside noises were kept at a minimum. This was especially difficult because part of the equipment is in the acoustic shell which backs the orchestra stage to provide maximum intensity of sound.

Top of the shell was made air tight and filled with conditioned air which is blown under very slight pressure through a series of slots behind each convolution in the shell. Special blowers, low air velocities, and acoustically treated ducts and sound traps were used to shush as much of the noise as possible. Incidentally, the studios are next door to the Union Air Terminal where airplane motors zoom continuously.

Although air-conditioning engineers won't get excited about it, laymen will be interested to know that the system which controls air movement, temperature, cleanliness, and sound in all 19 buildings is checked by means of indicating lights on a single control panel. Temperatures and humidities at various points in the buildings are checked on a similar board. This isn't new, but it's a jumbo-sized example of a conventional centralized air-conditioning installation.

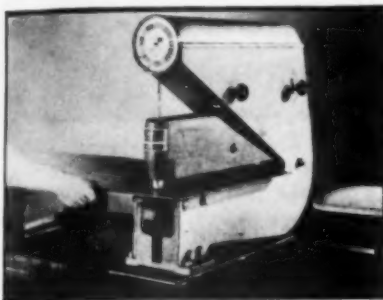


*The big orchestra stage in the all-air-conditioned Disney studios receives air from slots behind the convolutions of the walls and ceiling, exhausts it evenly through grilles located in each platform riser.*

## NEW PRODUCTS

### Sheet Metal Gauger

DESIGNED both as a faster, more accurate means of measuring the thickness of metal sheets and of checking their uniformity and suitability for metal-forming operations, the new Guyer Gauger shows its readings on a large dial. A 23-in.



"throat" permits 45-in. sheets to be checked right to the center. Streeter-Amet Co., 4101 Ravenswood Ave., Chicago, makes the instrument with electric motor drive to open and close the tungsten carbide "anvils."

### Short Wave Auto Radio

OWING to legal restrictions on private automobile radios for receiving police calls, there has been difficulty in developing one which would get foreign short-wave programs without picking up the forbidden wave lengths. Now, however, Philco Radio & Television Corp., Philadelphia, is bringing out the "first short wave auto radio," Philco Model AR-9, a compact superheterodyne set which locks out police calls.

### Machine Tool Transmissions

MACHINE TOOLS which now secure their speed changes through shifting belts on step-cone pulleys can be easily converted to shifting by an auto-type lever with new Western Four-Speed Transmissions. Western Mfg. Co., 3428 Scotten St., Detroit, produces them in three different power ratings.

### Emergency Brake Alarm

IT'S A CAREFUL MOTORIST who never fails to release the emergency brake all the way. Brakes, brake drums, and engines have all suffered until Ellery Co., 721 E. Exchange St., Akron, O., brought out the new Eclipse Emergency Brake Alarm to give an audible signal on practically any car, bus, truck, or tractor.

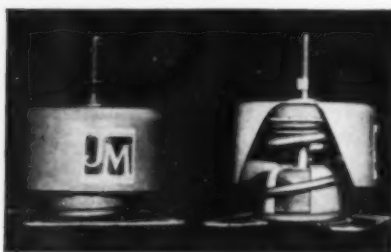
### Coperoyd

TESTED for three years as an anti-fouling paint on boat bottoms, Coperoyd, which contains 8 lb. of metallic copper per gallon, has shown efficiency in inhibiting rust on steel and discouraging marine borers from attacking wood. Metal Coat-

ings Corp., 236 W. 44th St., New York, now compounds it also for inhibiting rust on interior and exterior structural steel and for other land uses where a tough copper coating may be indicated.

### Vibration Isolator

COMBINING a coil spring, a rubber load pad, and an adjustable rubber snubber, the new J-M Controlled Spring Isolator is designed to minimize machine vibration and reduce noise. A metal jacket



protects rubber parts from oil and air. Johns-Manville Corp., 22 E. 40th St., New York, produces the unit in two capacities for supporting motors, generators, pumps, ventilating fans, what-have-you.

### Canless Waste Receptacle

A TOUCH OF THE FOOT on the pedal of the new In-the-Bag Sanitainer opens a leak-resistant paper bag to receive almost any



kind of waste. Edwards Mfg. Corp., 2330 N. Dort Highway, Flint, Mich., makes it in several colors for home, office, shop, and laboratory.

### Oxygen Inhalator

BUILT LIKE A SUITCASE, the B-K Oxygen Inhalator can be carried readily to any accident scene or sickroom. As developed by Bishinger-Kochler Mfg. Co., 7838 Kelly St., Pittsburgh, the equipment includes inhalator mechanism, indicator, automatic control, hose, a 9.9-cu.ft. bottle of oxygen, and a transparent face piece which permits the operator to see

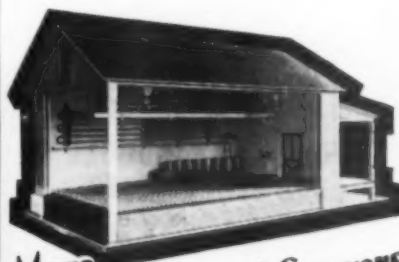


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## How many "mental sit-downers" have you in your organization?

"In every factory and store, among office workers and salesmen, costly 'sit-downs' have been going on for a hundred years—*mental sit-downs*", says Craig Davidson. "Commands to do thus and so have met with mental sit-downs which have been just as effective in blocking production and sales as any physical sit-down that ever stopped an assembly line."

"That is one reason why this book," he goes on, "should be useful to any man whose job is to get other men to do their work right. It should visualize for him *what causes mental sit-downs and what to do about them.*"

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By EVERETT B. WILSON

Formerly Assistant Director of Personnel,  
Kroger Grocery and Baking Company

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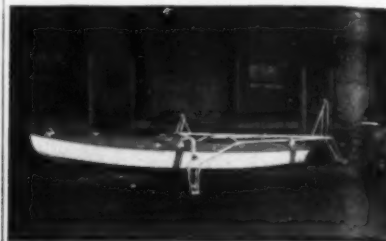
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the patient's face and regulate treatment accordingly.

### Underslung Trailer

BOATS CARRIED swiftly from place to place in the new BoaTrailer, made by C. R. Jahn Co., 1345 W. 37th Pl., Chicago, are easy to load and to launch.



Secret is the underslung design which permits the boat to be cradled in slings suspended from welded steel supports.

### Pipe Filter

DESIGNED to keep tobacco dry, to prevent soggy "heels," and to sift out small particles, the new Jiffy Stainless Steel Pipe Filter fits into the bottom of the bowl. The device, which is a development of Patent Products, Inc., 932 W. Lapham St., Milwaukee, consists essentially of a flat coil of wire and a tiny lifting handle which hooks on inconspicuously.

### Porcel-Tite

CLASSED as a "chemical ceramic" by its maker, Bedard & Morency Mill Co., 101 N. Lombard Ave., Oak Park, Ill., Porcel-Tite is a new white, "waterproof and fireproof paint" for giving a porcelain-like finish to masonry, asbestos siding, concrete floors, plaster board, and fiber building board. Since it expands in setting, it may even be used to fill cracks and to anchor bolts in concrete.

### Candle Follower

INVENTED for devotional purposes, the new Lux Pyrex Glass Followers may be used to prevent dripping, smoking, and accidental blowing out of candles on



secular banquet tables and in homes. Lux Candle Co., Ipswich, S. D., is headquarters for the followers and the special candles which go with them.



BUSINESS WEEK REPORTS TO EXECUTIVES ON

## LIFE INSURANCE—AND TNEC

The Temporary National Economic Committee has built a mountain of records on the life insurance inquiry which has been so potent a headline-maker for its long investigation of business in behalf of the government. What the mountain will bring forth awaits the submission to Congress of TNEC's report and recommendations on its findings. Legislation for federal regulation of life insurance is a possibility. Evidence that life insurance has failed to prove its soundness in the test of the last troubled decade isn't.

Meanwhile, the Editors of *Business Week* have looked at the TNEC record in behalf of business, have searched the longer record of life insurance company operations in the United States, and have gone behind the records to the questions that business men raise about insurance and to the problems that insurance men discuss among themselves. Where half-truths were introduced in TNEC hearings, they have sought whole truths. Where investigators have hewed to a fixed line of questioning, they have dug for answers throwing light on the entire complex relationship of life insurance to business in general and to the business executive as policyholder, investor, issuer of securities, debtor, and citizen. Subject of this inquiry, too, is "bigness"—the bigness of the whole insurance job.

This is one of a series of special reports on current business opportunities, problems and trends of out-

standing significance. Covered under the general copyright on the March 16, 1940, issue of *Business Week*

A McGRAW-HILL

PUBLICATION



# Life Insurance—and TNEC

THE TEMPORARY NATIONAL ECONOMIC COMMITTEE has just closed another one of those recurring life insurance chapters in its long record of investigation. The insurance companies have once more settled back to prepare for the next one—if there is to be another. They have become used to this sort of thing in the last year.

Thirty-five years ago a brilliant young lawyer by the name of Charles Evans Hughes, as counsel for a New York legislative committee, conducted a searching investigation of life insurance policies and practices. Those hearings, which have gone down in history as the Armstrong investigation, brought changes not only in the state of New York but in the insurance business throughout the nation.

In the intervening years, the life insurance companies have gone about their business in the conviction that they were doing a good job—providing a public service and providing it at a price which was thoroughly economical. Hence there was no little surprise and misgiving when they learned in 1938 that they were to be investigated once more, this time by the federal government.

Their misgivings were not so much that they would be convicted of any real sins of commission or omission. It was strictly a matter of having been pretty much out of the public eye, and the prospect of publicity was distasteful. Moreover, there was the fear that many things would be read into the record which would be no better than half-truths and which would create, in the minds of the untutored, full-fledged misimpressions.

## Regret Newspaper Inferences

Fears entertained by life insurance executives have not been dispelled by the hearings which opened before the Temporary National Economic Committee just over a year ago and have been continued at intervals ever since. Front-page headlines have been made out of material which Sen. O'Mahoney, chairman of TNEC, has stated was given an importance far beyond its due. Newspaper men were allowed, if not encouraged, to draw inferences from statistics—inferences which the Securities and Exchange Commission, in presenting the evidence to TNEC, has been careful not to try to substantiate by introducing them into the record. And many things which have been put into the record—with little or no opportunity for refutation on the part of the insurance business—are conducive to conclusions which the life companies believe are unsound.

Sen. O'Mahoney has promised the insurance companies that they will get an opportunity to present their side of the case if they so desire. However, many points of view among the companies themselves have to be reconciled before the opportunity may be taken advantage of, and the date for rebuttal has not as yet been set.

Quite irrespective of what information the companies may hereafter introduce, there isn't much question as to what the TNEC investigation of life insurance will produce. It is to be assumed that Sen. O'Mahoney's frequently iterated and reiterated statements may be taken as expressing his intention. He says the committee is purely a fact-finding body, that the testimony it takes is not designed to condemn the operations of any industry nor to be construed as reflecting the beliefs of the committee. He says that no member of the committee nor of the SEC has advocated federal regulation for life insurance. He denies above all else that there is a deep-dyed plot among the members of TNEC-SEC to give the federal government control over the companies' \$29,000,000,000 of assets.

## Report on "Concentration"

Nevertheless there will be a report written over the next few months by the SEC's staff of legal and technical experts on life insurance. It will go to Congress, possibly with alterations dictated by the TNEC members, as a report of findings by the TNEC as to the vast ramifications, the financial power, and the potential abuses inherent in the concentrated wealth of the life insurance companies.

This report probably will not carry the label of a proposal for federal legislation. Yet it will provide handy material for any congressman who might hanker for such legislation—and it's not improbable that some of those who have a finger in drafting the report will guide its conclusions with just such a possibility in mind.

Main points of attack, if indeed there is to be an attack, are clear. They're all in the record. Many of the criticisms will be predicated on the contention that there is a striking absence of self-discipline in the life insurance business. Care will be taken not to antagonize state insurance commissioners by saying that they have been lax, but there is the precedent of the Public Utility Act of 1935 to show for the argument that the states, conscientious as they may be in regulation, can't control the financial giants that cross state lines and wield enormous financial power.

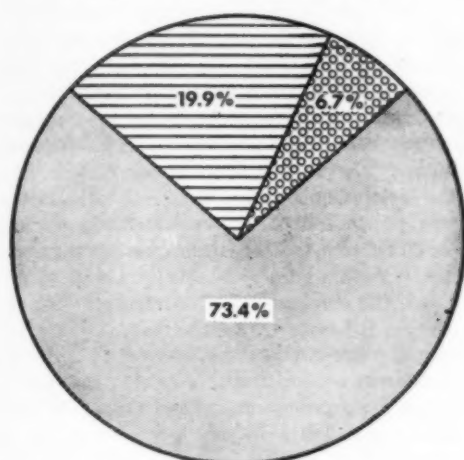
## Suspicion of Size

Permeating the report will be the suspicion that the very size of the big companies is dangerous; that one single life insurance company controls five billion dollars of assets; that the five largest companies in the New York metropolitan area control more than 54% of all life insurance assets; that the 16 largest companies control more than 80% of all life insurance assets; that life insurance companies take in upwards of 5% of the national income—a very large slice of all savings—and invest this huge fund

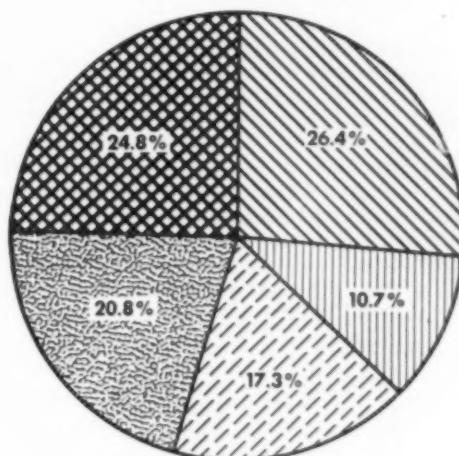
## \$42,679,883,000 IN TEN YEARS

Income and Expenditures of 26 Life Insurance Companies, 1929-1938




### WHERE IT CAME FROM









### WHERE IT WENT



### TOTAL INCOME — \$42,679,883,000

	PREMIUM INCOME .....	\$31,326,223,000
	INVESTMENT INCOME .....	\$ 8,473,264,000
	ALL OTHER INCOME .....	\$ 2,880,396,000

### TOTAL OUTGO — \$42,679,883,000

	PAYMENTS TO POLICYHOLDERS .....	\$23,221,724,000
	Benefits Under Policies .....	\$11,260,082,000
	Death Benefits .....	\$7,784,283,000
	Other Benefits .....	\$3,475,799,000
	Dividends to Policyholders .....	\$ 4,576,819,000
	Surrender Values Paid .....	\$ 7,384,823,000
	EXPENSES .....	\$ 8,873,177,000
	Investment Expense .....	\$ 1,162,302,000
	Commissions and Agency Expense .....	\$ 3,552,851,000
	Other Operating Expense .....	\$ 2,146,162,000
	All Other Disbursements .....	\$ 2,011,862,000
	CASH OUTGO .....	\$32,094,901,000
	ADDED TO SURPLUS AND RESERVES .....	\$10,584,982,000

Source: Securities and Exchange Commission.

© BUSINESS WEEK

in a much more limited fashion than it might be invested by individuals.

Such reasoning provides the philosophical back-drop for more specific criticisms. One set of charges hinges around self-perpetuating managements. It is a fact that policyholders in New York companies (and many of the big ones are New Yorkers) have no more than a theoretical voice in choice of officers and directors. There is a certain amount of interlocking between the directorates of life insurance companies and other lines of business, and this has been stressed as at least a potential basis for conflict of interest (not to mention a few cases of real or apparent back-scratching). There will be illustrations of some corporate pyramiding in certain stock companies, of a few

loans by subsidiaries to officers, of certain collateral loans by companies to their own officers, and of a group of loans by companies to officers of other companies which looked to be somewhat reciprocal in character. Such evidence will be used to bolster the indictment of all-powerful management.

Accounting practices and certain other matters will be cited as arousing the suspicion that policyholders aren't getting a full, clear view of their companies' affairs and that they may be paying too much for insurance. As to accounting, many of the present forms originated in the insurance reform around the year 1875. Improvements came in 1905, and little change has been made since.

The suggestion that those who buy life insurance are being overcharged will be based in part on the fact that

### Lapse and Surrender—A Problem in Selling

ONE OF THE SHARPEST criticisms of life insurance methods concerns sales policy—overselling the assured or selling him policies which he later decides don't suit his purposes, with the result that he lapses or surrenders. Statistics prove a somewhat unsatisfactory means of bolstering an argument which includes so many intangibles, yet they carry a certain weight. That policies lapsed or surrendered (that is, fail to serve the purpose for which they were bought) exceed in volume those which survive to fulfill the desires of the assured (such as death benefit, endowment, or retirement income) has long been fairly well known. The fact that lapses and surrenders have been large when compared to annual new business over a long period of years is perhaps less understood.

Pertinent statistics on this phase of insurance are presented in the following tabulation covering ordinary life and industrial life insurance policies (figures in millions of dollars, 000,000 omitted):

Year	Total Life Insurance In Force Dec. 31	New Policies Written	Lapses and Surrenders Less Revivals	Benefits by Death and Maturity
1927	\$87,022	\$15,869	\$6,576	\$691
1928	95,206	16,763	6,808	799
1929	103,146	17,695	7,505	889
1930	107,984	17,464	9,391	947
1931	108,886	16,168	10,811	1,011
1932	103,154	13,704	13,244	1,000
1933	97,985	12,966	11,294	967
1934	98,542	13,198	9,082	968
1935	100,730	12,836	7,638	975
1936	104,667	12,927	6,248	1,021
1937	109,769	12,935	5,985	1,031

Data: Compiled by SEC from *Spectator Year Books*.

the mortality table in most common use for computing probable death payments dates clear back to 1868, and that mortality trends have improved importantly since that time.

So on through problems such as those which arise over the proper method of carrying real estate on the books, proper accounting for interest earned but not collected, compliance with state laws which provide that real estate acquired through foreclosure should be sold within five years, and the weaknesses in local regulation which contributed to failure of several small companies over the space of the last 10 years.

On many of the points enumerated, it would be possible for Congress to legislate. Methods could be prescribed for holding elections in which the policyholder would have greater voice (but he couldn't be forced to take advantage of it). A federal bureau could be given the power to modernize accounting methods and standardize practice as to valuation of assets. National control over chartering of new companies, so as to guard against wild-cat projects, can be visualized. There is a talking point for some federal regulation when the boys in Washington note that states can't control sale of insurance across state lines by mail and by radio.

But even if all those things were done (and there's

another side to the case in almost every instance), no approach would have been made to the problem which the life insurance industry recognizes as one of its most serious. That problem arises from the fact that insurance has to be sold—and there has been a marked tendency in the past to poor selling. A very high percentage of policies are lapsed, surrendered, or otherwise terminated in a manner which fails to fulfill the purpose for which they were purchased.

No mere matter of legislation and regulation—state or federal—is going to correct the high lapse rate. It's a problem for the companies to fight out for themselves. They have an interest in it from a social point of view because lapses usually cost the buyer the full amount of his first year's premium and sometimes his first two years' premiums. They have a selfish interest in it because (a) the person who is forced to lapse or who lapses feeling that the policy sold him wasn't what he wanted may become embittered toward life insurance; because (b) the company's agent would receive a good deal more in commissions if the business stayed on the books for ten years; and because (c) lapse within the first year certainly leaves the company out-of-pocket on the cost of acquisition, and lapse within two years probably results in a loss.

That the companies realize and accept at least a part of their responsibility in this matter must be apparent to almost anyone who has been approached by a life insurance salesman in the last few years. Whereas the average agent of 10 years or more ago burst into an office to sell you a \$10,000 policy of one kind or another—quite without knowledge of your earnings or your insurance needs—the agent of today more often than not starts out by asking if he may make a survey of your present policies in order to recommend a program which will accomplish the best results in the light of what you want to do, and are able to afford. His idea of what you can afford may differ from your own, but his home office probably has figured out for him a scale of insurance investment in relation to annual income—a scale which insurance men honestly believe the man with foresight should buckle down to.

#### Bureau Analyzes Progress

Among the first things done by the companies in approaching this problem was organization of the Life Insurance Sales Research Bureau with offices in Hartford, Conn. Some 90 companies in the United States and 15 in Canada are members. They supply information to the Bureau, receive in return suggestions on how persistency of policies might be improved.

Studies by the Sales Research Bureau have helped the individual companies to analyze their own situations in the light of their own experience. Among the most basic outgrowths of the campaign is improvement in the selection and training of agents. One company which began intensive study of the selling problem seven years ago has cut the number of its agents from about 900 to 450, and is writing just about the same annual volume of business as at the outset. By rating applicants for agency jobs as to their obvious qualities as salesmen it has reduced agency turnover and the cost of training its salesmen. And it demands that an agent must write \$25,000 of paid-for life insurance every year if he is to stay in the business. If he can't do that, even in his first year, it figures that he

is never going to be a salesman and, what's more, he can't make a living unless he writes a great deal more than that on the average.

This same company, in common with many others, has tried out the idea of paying agents a straight salary during the probationary period. Still others have experimented with a guaranty of a certain income for the beginning salesman. Yet very few companies, after careful analysis, have stuck to either method of compensation. The majority feel that the incentive to get out and push is reduced.

Assuming the salary or guaranty is not the ideal basis for the average company, there are several alternatives. Some have to do with the method of paying commissions to the agent—payment of a smaller first-year commission than is now the rule and increasing the commission paid in later years if the business stays on the books is one example.

Most of the companies, however, feel that the greatest possibility for improving persistency lies in the direction of hand-picking the agent and then spending good money to give him a thorough groundwork in insurance. Besides teaching him how to tailor the program to the prospect, there is a widespread effort to teach the salesman how to select prospects who are the best moral and financial risks and how to service the buyer so as to encourage persistency.

#### Many Factors Influence Lapses

Lapse ratios have been studied in relation to age groups, income groups, and occupational groups. They have been analyzed on a combination age-and-income basis. They have been correlated with method of premium payment. Calculations have been made in the light of insurance previously in force and policies now held. From these and a variety of similar surveys it is possible to rate an applicant for insurance fairly accurately as to probable persistency of his policy. Likewise, it is fairly simple to classify for agents the types of business the company wants and the types which will best repay the agent for his sales effort.

Such items as part-time agents might not seem particularly important to the casual observer, but they are to the companies. Time was when a high-salaried executive might have his secretary take out an agency license in order to write a large policy on the boss's life (and he would collect the commission on his own policy). Equally often, a youngster would impress an agency manager with his ability by writing two or three large policies as a beginner and then turn in little or no business for the ensuing years. He probably wrote two or three wealthy relatives or family friends and then became deadwood in the agency force. Any business he might turn up would be poor in character. So the part-time agent has been largely eliminated in the sale of ordinary life insurance. Only in rural territories do most companies hire such men.

It might appear also that method of premium payment would be of little importance. Yet it has been demonstrated conclusively that the persons who have relatively small premiums to pay and who elect to pay them monthly won't set any records for persistency. Similarly, those who pay premiums quarterly and semi-annually lapse much more frequently than those who pay them annually.

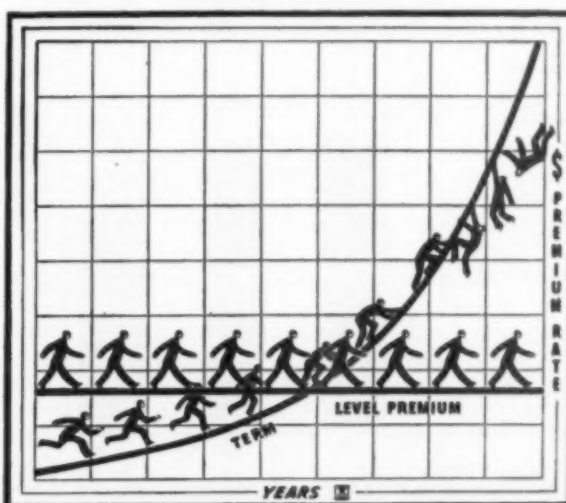
Even so, there can be arguments, and very effective ones, on the other side when it comes to method of premium payment. Southwestern Life of Texas, which has made

quite a record for persistency, encourages monthly payments. The company figures that the man who lapses in the early months wasn't sold the right policy or was sold too large a policy. It wants him to discover this at a time when the premium he will lose is as small as possible. And it provides methods of reinstatement which give him the advantage of most of what he paid on the lapsed policy.

The SEC, in presenting testimony to the TNEC, undertook to focus attention on overselling during sales campaigns or drives, and flagrant instances are known in which a salesman, intent on making a goal above all else, has written policies which had no business on the books. Some companies have given up drives or are considering giving them up in the hope of improving their records for persistency. The Southwestern Life has a cash drive in which it will permit no agent to participate unless his lapse ratio is under 25%. And yet there is no agreement among companies that campaign sales are poor sales; several of the large companies have analyzed persistency of business put on the books during drives and find it to be, if anything, a little better than that written in the months immediately preceding and immediately following.

Another interesting avenue of approach is opened by the policy of the Acacia Mutual. For one thing, the company relates the size of renewal commissions to the length of time the policy has been on the books. More unusual than that, however, was its decision that agents in trying to clinch a sale put too much emphasis on any given company's dividend record (as a factor in net cost). So, in 1928, the Acacia cut its gross premiums approximately to the rates of the non-participating companies and, of course, began to pay correspondingly lower dividends.

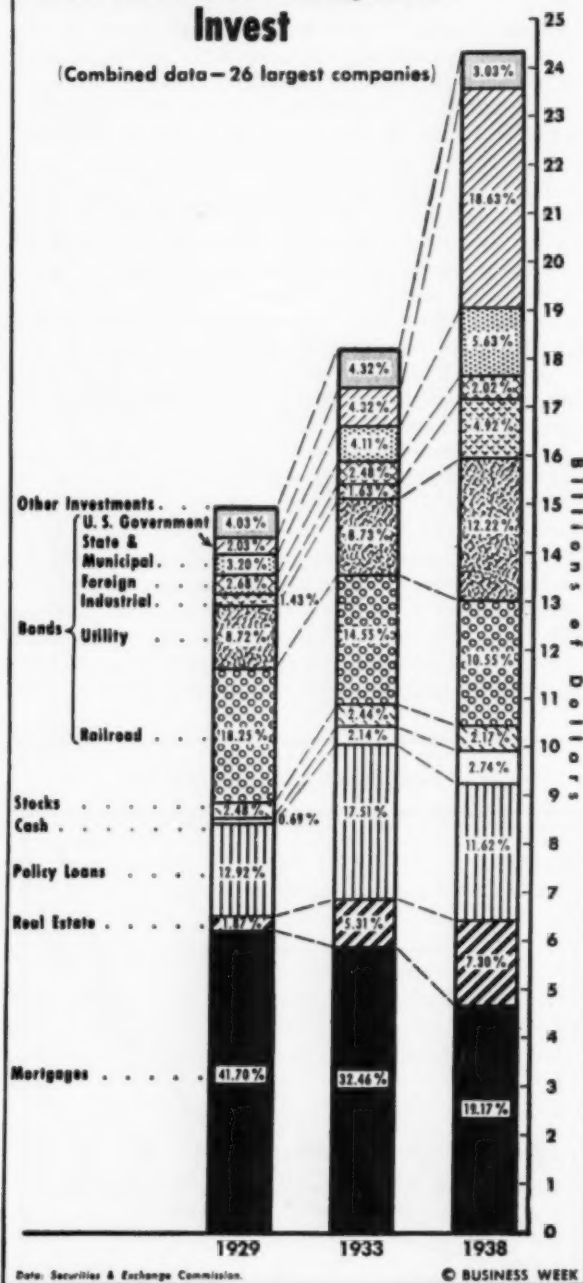
#### Talking to the Public



This year, partly as a reply to TNEC, life companies have humanized their reports. This chart, a high spot from the *Equitable of New York's* statement, shows the advantage of letting an overcharge in the premium for early years pay the much heavier load later in life (aside from the fact that level premium policies build up cash surrender values and term insurance doesn't).

## Where Life Insurance Companies Invest

(Combined data—26 largest companies)



New trends, as life insurance companies sought to find investment for their expanded assets, are shown in this chart. Fewer new mortgages are to be had and real estate is being sold. United States government bonds and public utility obligations show the big gains. Policy loans grew sharply from 1929 to 1933, but they have declined since. (Foreign bond holdings are almost entirely Canadian obligations.)

The mutual companies know that they are charging a higher gross premium than is ordinarily necessary. The customary attitude has been that the excess charge is a bulwark in case of an epidemic such as the influenza outbreak in 1918 when death rates far exceeded normal expectancy. Moreover, if the buyer pays a larger premium than is necessary, he gets most of the margin back in the form of dividends.

The insurance company actuaries will argue until the cows come home over the advantages of a high or a low gross premium. They'll pretty conclusively prove that the end result, so far as net cost to the policyholder is concerned, is not much different either way.

Clearly enough, the SEC introduced the methods of the Southwestern and the Acacia to indicate certain possible reforms. It is hardly likely that anyone in Washington now contemplates federal legislation extending to the control of life insurance sales practices, but if federal regulation of the business is to come it will sooner or later concern itself with overselling and persistency.

The problem of gross premium probably won't be an early concern of the federal government, but it is a safe bet that any federal regulatory agency would quickly protest against continued use of the old American Experience Table of Mortality. This table was compiled just after the Civil War and mortality trends have changed materially in the interim. Fewer people now die at relatively early ages; more survive to be paid off under life insurance policies in their 60's and 70's. However, the old table by no means governs the premium rate because up-to-date mortality experience also is considered by all, or nearly all, companies.

### Arguments for Lower Cost

As noted above, the common practice has been to charge a high gross premium in order to buttress the company against sudden financial shock and to return the excess in the form of dividends. Those who oppose the higher premium argue (1) that the excess charge should be left in the hands of the investor to be put to work in his own community rather than having it put to work in quite different investment channels by the insurance company; (2) that the agent's percentage of premiums obviously would be smaller on a lower charge and that no part of such an expense ratio can be paid back to the policyholder in dividends; (3) that premium taxes would be lower on a reduced payment; (4) that more life insurance could be sold in the first instance on a reduced gross premium; and (5) that the person who lapses his policy would have lost less if he had paid in less.

In the final analysis, however, the actuary decides how much the company should take in each year on any given type of policy in order to meet all contingencies. He knows how much his company's experience improves on the expectancy calculated from the old mortality table. He knows how much allowance he would make for unexpected losses if he were told to work with a new mortality table. Rest assured that most actuaries will tell you that there wouldn't be very much change in rates simply because a modern mortality table had been introduced and that there would be even less change in net cost.

There are no such arguments against change in prevailing accounting practices which are almost as old as the

## A Problem in Managing Investments

LIFE INSURANCE COMPANIES count on income from their investments to maintain part of their policy reserves. With this in mind they figure they will have to average a net interest return of perhaps 3% or 3½% on investments. Anything they earn over such an assumed interest helps to pay dividends to policy holders (in mutual companies) and to stockholders (in non-participating companies).

In recent years, however, investment yields have been reduced drastically by prevailing easy-money conditions. The results of this situation are plainly apparent in the figures published below for the percentage of net income return on investments of the 26 largest legal reserve life insurance companies (in order of size) in the United States (data compiled by the Securities and Exchange

Commission for the Temporary National Economic Committee).

In studying this table, it should be borne in mind that conclusions from comparisons between results of various companies may be very deceptive. The figures are presented here purely to show the trend of investment yields since 1929. Companies which make what seems to be a favorable showing may have the poorest portfolios from the standpoint of safety or interest which is earned but not collected may be included as income. Other companies which make what appears to be poorer showings quite possibly are pursuing the more conservative course of keeping most of their investments high-grade and of showing no income on earned-but-not-collected items.

Companies in		Net Yield on Investments									
Order of Assets	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	
Metropolitan .....	5.24	5.23	5.10	4.48	3.92	3.75	3.66	3.74	3.64	3.57	
Prudential .....	4.96	4.99	4.90	4.58	4.22	3.69	3.46	3.68	3.73	3.58	
N. Y. Life .....	4.85	4.94	4.81	4.67	4.33	3.83	3.85	3.95	3.80	3.63	
Equitable N. Y. ....	5.00	5.16	5.06	4.69	3.81	3.64	3.58	3.46	3.57	3.45	
Mutual N. Y. ....	4.78	4.80	4.87	4.71	4.37	3.92	3.63	3.52	3.44	3.30	
Northwestern Mut. .	5.02	4.99	4.93	4.83	4.51	4.39	3.97	3.70	3.87	3.77	
Travelers .....	4.88	4.82	4.70	4.35	4.08	4.03	3.78	3.61	3.67	3.67	
John Hancock .....	5.08	4.94	4.75	4.55	4.11	3.64	3.44	3.41	3.50	3.38	
Penn Mutual .....	5.20	5.15	5.08	4.98	4.28	4.02	3.97	3.76	3.63	3.40	
Mut. Benefit .....	4.97	4.98	4.92	4.25	4.07	3.52	3.25	3.88	3.75	3.60	
Mass. Mutual .....	5.34	5.27	5.06	5.01	4.08	3.82	3.70	4.06	3.86	3.68	
Aetna .....	4.27	4.42	4.57	4.55	4.24	3.87	3.79	3.72	3.60	3.56	
N. England Mut. ....	5.21	5.19	5.14	5.09	4.77	4.50	4.10	3.75	3.56	3.48	
Union Central .....	5.34	4.97	4.49	3.84	4.45	3.79	3.66	3.74	3.58	3.47	
Provident Mut. ....	4.88	4.92	4.76	4.77	4.23	3.94	3.99	3.85	3.93	3.72	
Conn. Mutual .....	4.88	4.86	4.78	4.48	4.19	4.00	3.61	3.75	3.77	3.84	
Conn. General .....	4.95	4.84	4.60	4.03	4.06	3.88	3.65	3.71	3.51	3.47	
Phoenix Mut. ....	5.02	4.82	4.65	4.30	3.82	3.75	3.48	3.36	3.37	3.45	
Bankers Life .....	5.10	5.00	4.82	4.25	4.20	3.90	4.08	3.91	3.91	3.80	
National Life .....	4.82	4.86	4.57	4.14	4.08	3.97	3.53	3.83	3.62	3.71	
Pacific Mut. ....	*	*	*	*	*	*	*	4.00	4.10	3.90	
State Mutual .....	5.19	5.18	5.11	4.76	4.51	3.30	3.53	3.76	3.61	3.52	
Equitable Iowa .....	5.00	4.90	4.80	4.30	4.04	4.00	3.59	3.76	3.76	3.76	
Western & So. ....	5.45	5.61	5.20	4.52	4.02	4.08	4.06	3.84	3.91	3.83	
Lincoln Nat'l .....	5.20	5.06	4.88	4.38	3.68	3.60	3.02	3.43	3.48	3.61	
Guardian Life .....	5.83	5.75	5.46	5.12	4.37	4.01	3.83	3.02	3.76	3.76	

\* Not available.

mortality table. Most of these practices originated in the insurance reform around 1875. Many of them have become standard through adoption in state laws. It would, of course, take quite a wrench to break away from them, but the companies are alive to the need.

They are aware of the fact that the old tabulation of income and disbursements is a long way from a cash account. For example, it doesn't take into account in any way that a loan to a policyholder is a cash disbursement which rarely is repaid. The gain and loss exhibit, adopted in 1895 to supplement the income and disbursement form, generally is regarded as a needed refinement but it, too, is subject to harsh criticism from within the life insurance business as well as from outside.

Moreover, there is no standardization among life com-

panies on the handling of many accounting items. It is quite proper, for example, to capitalize interest which is earned but not collected, and many companies do so. Others figure that conservatism precludes capitalization of uncollected interest. Some companies write down to the bone real estate held as a result of foreclosure and hope to get some of the write-offs back in the form of profit over book value in the event of sale. Other companies carry their properties at the amount of overdue principal and interest plus foreclosure expenses and plan to take the loss between book values and what they can get on a sale only if and when the sale is made. In a much smaller degree, such differences in valuation policy also apply to book figures for stocks and bonds.

Needless to say, the average policyholder can't judge the

nature and the soundness of his company's surplus unless he knows how it handles such items as these. For such of these holders of this country's \$112,000,000,000 of life insurance as would read a company's statement (prepared however it might be) the federal authorities clearly would like to provide standardized accounting.

Policyholders' rights similarly are at issue when the SEC talks of self-perpetuating managements. The present New York law was adopted after the Armstrong investigation of 1905 to eliminate just such criticisms as are now prevalent. It's an elaborate statute, noteworthy for its safeguards. Yet it is so cumbersome in its provisions and the apathy of the policy holders is so marked that there isn't a known instance of any group trying to elect an outside director to the board of a major New York company, much less depose a management. The now famous testimony about agents securing forged ballots is pretty much a red herring when it is considered that none of those ballots were needed to elect the official slates, that the elections were not contested, and, finally, that the elections were in companies which never had had a contest for a board seat.

However, some special election provisions are worth noting. Northwestern Mutual, for example, will accept only a policyholder for the board. If a director is absent from three successive meetings, whether for business reasons or health or anything else, he is automatically dropped. No banker is accepted for nomination unless he is from the home town, Milwaukee. In the Acacia any policyholder can place a director of his choice in nomina-

tion and is not perforce confined to a vote for the management slate due to complicated election machinery. From the standpoint of public relations, some of these points might recommend themselves to insurance companies which were grilled for their election methods before the TNEC, assuming always that change doesn't involve a disproportionate expense (the New York law was framed as it is to avoid expense entailed by spite elections and nuisance value).

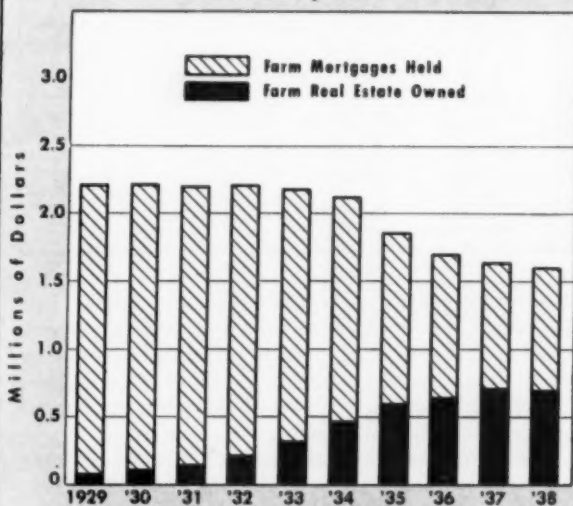
Insurance companies, having weathered the hard times of the 1930's without major financial mishap, can view their investment problems with some equanimity. But, even though they came through the long period of market deflation with plenty to crow about, they passed one problem only to encounter another. Interest rates on investments have for several years been going down and down. It now is difficult to cover the amount of interest required to maintain policy reserves and have anything over.

This problem emphasizes the reason why life insurance companies always try to have something to spare in all their income items. When both premium income and investment returns provide excesses over the disbursements they are counted on to meet, it means fat dividends for policyholders. But when investment income shrinks, as it has, to the point where there is little over customary charges against it, the excess in the premium is a handy cushion to meet extraordinary death payments to policyholders, to take up any losses that may be incurred in assets, or in general to handle contingencies.

Not that there is any need right at the moment for

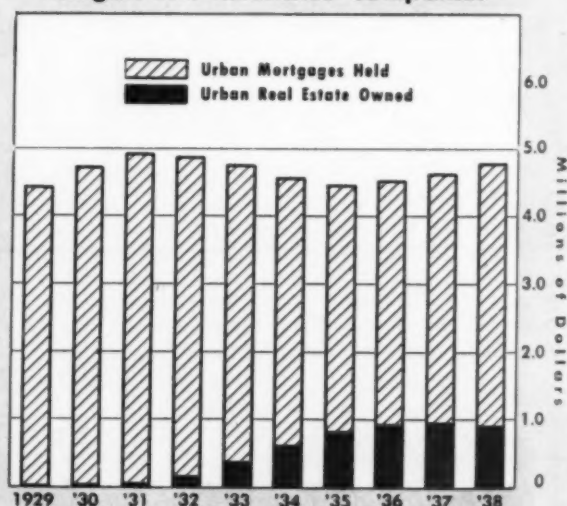
## LENDERS YESTERDAY—LANDLORDS TODAY

Farm Investment of All Life Insurance Companies



Data: Bureau of Agricultural Economics, Securities and Exchange Commission.

Urban Real Estate Investment of 26 Largest Life Insurance Companies



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Select mortgages long were the favorite investments of the life insurance companies. During the middle 1930's, however, a very substantial percentage of these holdings turned sour—with the result that the com-

panies became, quite involuntarily, the country's largest holders of real estate. They have sold some of the farms acquired by foreclosure; the federal land banks refinanced some \$305,000,000 of mortgages.

BUSINESS WEEK

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MARCH

*A Job of Rural Rehabilitation—Before and After*

*Metropolitan Life believes in putting farms—both land and buildings—back into shape so as to send the*

*buyer off to a good start. Here is a typical farmstead before and after a \$2,000 new paint and repair job.*

excess income to handle losses. Mortality experience long has been favorable, and the aggregate market value of life insurance companies' bonds and stocks over the last three years probably never has varied much more than a fraction of 1% above or below book values.

Nevertheless, there have been times in the not-so-distant past when market values of bonds and stocks have made no such handsome showing. At the end of 1932, for example, bonds and stocks were carried on the books of the 26 largest companies at \$6,670,000,000, which was about \$1,130,000,000 above the market. This writeup in investment values was not, however, an arbitrary one by the insurance companies. The state insurance commissioners had gotten together when things were at their worst and decided upon convention values for assets.

The theory was that market prices in 1932 bore no real relationship to underlying values. The commissioners, aided by some emergency legislation, decided to allow the companies to carry their investments at prices which had prevailed a few months earlier. They also permitted the companies to require as much as 60 days notice from any policyholder who desired a loan against his policy except in cases of dire need. This averted the necessity of dumping "under-water" investments and thereby heightening a market débâcle which had already reached unbelievable proportions. Establishing convention values on assets and placing a limitation on cash withdrawals stands as a milestone in the conservation of policyholders' reserves and equities.

**Investment More Difficult**

It also was a major item in preserving public confidence in the stability of life insurance and this confidence has, in turn, resulted in the steady subsequent growth of life insurance as an institution. Assets of the 26 largest companies rose by approximately \$9,400,000,000 from the end of 1929 to the end of 1938. This growth represented largely additions to policy reserves, and these reserves must be profitably invested if the formula upon which benefits to policyholders is based is to work at all accurately.

This rise in the amount of money to be invested has posed its own problem. It has come in a period when industry has been borrowing relatively little capital. Urban mortgages have been an outlet for but a moderate volume

of investment money owing to the building slack over most of the period. And a lot of companies have been scared out of the farm mortgage field by the experiences of the middle 30's. The combination of scarcity of good investments and plethora of investment funds has resulted in the borrower being able just about to write his own ticket on interest rates.

Take the experience of the 26 largest life insurance companies since the beginning of 1932. Their assets had grown by \$7,000,000,000 by the end of 1938. In addition, corporations redeemed in this period some \$2,736,000,000 of bonds held by these companies. That adds up to more than \$9,700,000,000 in funds wanting employment. The 26 companies bought a total of about \$6,900,000,000 of corporate bonds, but the net addition to their corporate bond holdings naturally was much less than that amount due to the redemptions mentioned and to sales in the open market. In fact, they ended the seven-year period with only about \$2,000,000,000 more invested in corporate bonds than at the start of 1932.

**Buy Government Bonds**

It was necessary, therefore, to find some other outlet for accumulated investment funds. The upshot has been an addition of \$4,178,000,000 to holdings of United States government bonds over the period. These governments don't return anything like the yield assumed in computing the amount which interest shall contribute to policy reserves from year to year and that, too, has injected new difficulties into investment management.

Hence it isn't surprising that the insurance companies bought virtually 50% of all new corporate securities offered in both 1937 and 1938 in contrast with about 25% in 1934, 1935, and 1936. Critics have used the 1937 and 1938 figures to indicate that the life companies have gained a strangle-hold on the country's investment market, but a little analysis weakens any such contention. Interest rates in 1937 and 1938 (and 1939 too, for that matter) were so low that none but institutional investors were interested in the return on high-grade securities. The insurance companies have been receiving by far the lion's share of individual investors' savings, and as a consequence have had steadily to step up their proportionate share of investment buying. In fact, if they hadn't increased their pur-

### Depression Record—3% Capital Loss

FEW INDEED are the investment managers who weathered the years from 1931 to 1937, inclusive, without any capital losses, and the life insurance companies lay claim to no such distinction. Yet surpluses accruing to policyholders and reserves underlying the policies went up almost without interruption. Capital losses for a group comprising most of the life companies amounted to about \$673,000,000 for the seven years, were far more than balanced by excess income from several sources such as excess interest. Most re-insuring of all, capital losses in no year reached 1½% of total assets, and for the seven years were under 3% of assets on Dec. 31, 1937.

The losses reproduced below do not necessarily represent realized losses. When the accounts are closed out further losses may be taken or gains over written-down book values realized.

Year	Capital Gain or Loss	Excess Interest*	Policy- holders' Surplus†	No. of Com- panies
1931 ..	\$-62,928,000	\$306,578,000	\$992,336,000	265
1932 ..	-73,356,000	262,215,000	994,138,000	253
1933 ..	-216,440,000	197,048,000	975,672,000	283
1934 ..	-134,508,000	139,524,000	981,795,000	271
1935 ..	-25,975,000	103,598,000	1,022,285,000	262
1936 ..	+85,329,000	136,319,000	1,156,436,000	269
1937 ..	-244,749,000	141,749,000	1,095,740,000	250

\*This figure is the amount of interest in excess of that required to maintain reserves (cash values) of policies.

†This figure, to a minor extent, reflects capital of stock companies as well as surplus applicable to policies in the mutual companies.

Data: Compiled by the SEC from *Spectator Year Books*.

chases it's a question of where borrowers could have turned for a market for their securities.

In the mortgage field the problem, up until the last couple of years, has been largely one of cleaning up old situations rather than of finding new mortgages. (This applies with about equal weight to urban and farm situations.) Company policies on foreclosure have differed widely, but there has been a general tendency to try to let the borrower clean up overdue interest and taxes and principal. When it has become clear that he couldn't quite keep up but that he, nevertheless, was a good moral risk, adjustments have been made on interest or even on principal. Farmers who have been engulfed by secondary debts have been foreclosed and then given purchase contracts with little or no down-payment so that they could start over. And yet, in spite of all efforts to avoid outright acquisition of real estate, the insurance companies are the biggest realty owners in the country.

Metropolitan Life, for example, is the nation's largest farm land owner. It owns some 7,100 farms which it carries at just under \$80,000,000, and it holds, in addition, mortgages on 13,000 farms totaling \$74,000,000. It has, on the average, about 8,000 tenant farmers. These tenants, with their families and hired help, constitute a total of about 60,000 people on the Metropolitan's land. Their contracts, though written for a single year, embody provisions for a five-year program of crop rotation. In a good average year the harvest on the company's farms runs

about 50,000 bales of cotton, 10,000,000 bu. of corn, 5,000,000 bu. of wheat, 6,000,000 lb. of peanuts, and 1,000,000 lb. of tobacco, to mention just a few of the crops.

When the Metropolitan foreclosed on these properties (and others that have been sold), it found widespread repairs necessary. These have been made, year after year until between \$8,000,000 and \$9,000,000 has been put into buildings alone. The company now believes the intrinsic value of its farms could be put about \$5,000,000 above the figure at which they are carried on the books. It is convinced that it could make more money managing its farms than it could on a similar investment in the mortgage market today, but it nevertheless feels (quite aside from legal restrictions on the length of time a company may hold real estate) that social welfare demands that the farms pass back into the hands of the farmers. In drawing up a sales contract with a tenant, the company would like to get 10% down because it believes the farmer does a better job if he has a fair equity in the property. However, it has accepted as little as 3% down, and its supervisors now are analyzing the tenants to see how many of them would make desirable purchasers.

### Prudential Pushes Sales

The Prudential, second largest farm owner in the United States, owns 5,940 farms carried at \$45,000,000. It is credited with being more aggressive than the Metropolitan in foreclosing, in writing down values, and in selling out (particularly in the matter of sales to former owners). Many owners were foreclosed when their secondary debts got the best of them and the Prudential then let them contract for their property without any down-payment and at the company's cost price. The contract calls for the company to get half the crop to apply on interest on the debt and, if anything is left over, it goes to reduce principal. If 10% of the principal has been paid at the end of three years, the farmer may have a deed to the land.

With urban real estate, as with farms, practices of various companies have differed materially. Some companies believe in writing down their real estate to going values, in rehabilitating properties, and in getting rid of them just as rapidly as possible. New York Life, for example, has followed the policy of writing down individual properties and, on top of that, making blanket write-offs on all urban real estate owned. Its write-offs since 1931 have totaled a little over \$50,000,000 and in 1939 it sold properties carried on the books at \$9,875,000 for a total of \$11,167,000.

### Await Real Estate Comeback

On the other hand, some companies are convinced that to press properties for sale is to keep the market depressed. They believe in waiting for real estate values to come back, and they express confidence that the comeback isn't too distant. Meanwhile, they are putting properties in good shape for sale but are cautious about writing values down too sharply lest bargaining power be curtailed.

When the case for and against federal regulation of life insurance comes before Congress, it probably will be greatly oversimplified. There will be little said about the mathematics and the human elements which make up today's complicated life insurance mechanism.

## A Glossary of Life Insurance Terms

**Admitted Assets**—Valuations under rules of state insurance commissioners (these valuations have differed fairly widely in the last eight years from either book value or cost).

**Assignment**—If assured has retained right to change beneficiary, policy may be assigned at will (for purposes of collateral, etc.). Company should nevertheless be notified.

**Cash Surrender Value**—Few policies accumulate cash value until after the end of first or second year; thereafter surrender value grows until it approximates legal reserve.

**Contestability**—Most companies—not to mention state laws—provide that policies shall be non-contestable after one or two years. This particularly prohibits companies from attempting to void policies due to either some intentional or unintentional misrepresentation of fact in the application for insurance.

**Convention Forms**—These are the agreed-upon forms upon which companies file their statements in order to avoid separate examination by every state in which they transact business. Many of the forms are 65 to 70 years old and give rise to criticism for "archaic" accounts.

**Convention Rates**—This term often is used in the insurance press for rates agreed upon by a group of companies, particularly as to group insurance.

**Convention Valuations**—In 1932, when stock exchange prices were ridiculous, the state commissioners got together on bond and stock valuations which reflected earlier quotations (these, it was agreed, more nearly represented values). After the crisis valuations were gradually brought back into line with the market. At the present time there is relatively little difference between most convention and book values on bonds and stocks.

**Cost Ratios**—These may mean (a) the percentage administrative expense bears to the life insurance premium or (b) the first year's commission as a percentage of first year's premium or (c) a combination of the two.

**Debit**—The group of accounts which the industrial life insurance agent must service each week (primarily to collect weekly premiums).

**Expense Ratios**—See cost ratios.

**Interest**—This has two main meanings in life insurance: (a) return on investments, or (b) portion of the return on investments which is the assumed rate of interest to maintain policy reserves.

**Legal Reserve**—This is the minimum portion of the annual premium which state laws allow the company to set aside for the policyholder. It represents the part of the premium which is not required to pay for "pure insurance." It accumulates, at interest, and at about age 95 pays up the policy. It also provides the base for calculating cash values.

**Level Premium**—This term designates the most common type of life insurance premium under which the assured pays the same amount each year notwithstanding the fact that "pure insurance" could be had at lower premium payments at early ages but only at much higher premiums in later years.

**Load or Loading**—Expenses incurred by the company in putting business on the books (largely agents' commissions) and administrative costs must be met out of premiums. Portion of premium thus appropriated is called the "load."

**Mortality**—Expectancy as to deaths in any age group in any year.

**Non-forfeiture**—Clauses in policies which permit automatic conversion into other types of policies (carrying smaller death benefits, etc.) in case of non-payment of premium for a stipulated period.

**Net Cost**—Usually this is interpreted to mean the premiums paid less the dividends (in mutual companies) and minus the cash surrender value at any given date. However, adjustment should be made for the interest that could be earned had the assured invested the total premium at going interest rates (perhaps at the rates which the life insurance companies themselves are able to earn). If allowance is not made for this interest factor it will often appear that the assured has had his insurance protection without any cost at all.

**Paid-Up**—Policies may become paid-up (or fully paid) in a number of ways. (1) The 10- or 20- or 30-payment life policies, which are fully paid for life at the end of the stipulated period, are familiar enough. So is the single-premium (single-payment or lump-sum) life policy which requires a large down payment and nothing thereafter. Most whole-life or straight-life policies become fully paid at age 95 because the cash surrender value then equals the face of the policy. And it is common for non-forfeiture clauses to switch policies into smaller amounts of paid-up insurance after premium has been in default for a stipulated period.

**Reserve**—See legal reserve.

**Surrender Charge**—Many companies, in the first few years, levy a charge against cash surrender value if the policy is canceled. This arises from the fact that the cost of putting new business on the books must come largely out of the premiums for the first few years.

**Termination**—(1) Death is the most obvious type of termination. (2) Maturity is another, as in endowment policies or those which provide a lump-sum payment or income after a certain number of years specified in the contract. (3) Disability, under certain types of policies, renders further payment of premium unnecessary and partial or full payment of the policy may be automatic. (4) Expiry represents the termination of policies written only for a specified term after which the coverage is no longer needed. (5) Lapse is cancellation prior to the time that the policy returns any cash benefit of any sort. (6) Surrender comes with cancellation at a later date when certain cash values are obtainable. (7) "Decrease" or adjustment represents conversion into another type of policy or into a smaller coverage in event of default on premiums or upon agreement with the company for any reason.

**Twisting**—Raiding of another company's policies by offering coverage represented as more suitable to the assured's needs, a lower premium, or some similar inducement. "Twisting" may also refer to raiding another company's investments, particularly its mortgages with the bait of lower interest.

**Types of Policies**—This list may be as extensive or as brief as you want to make it. About the simplest breakdown would be (1) whole life, (2) endowment, (3) 10- or 20- or 30-payment life, (4) term, (5) annuity and retirement income, (6) industrial including industrial endowment, and (7) group including group annuity. Accident, double liability, accident and health, endowment at age 85, paid-up at age 95, convertible term and its variants, family income, and many other policies—not to mention "gadgets" of use primarily to the salesman—are essentially a part of whole life. Ordinary insurance popularly is presumed to mean whole life—that is, level premiums based on annual payment and payable until death or some other stipulated contingency terminates the policy. However, as the subject of insurance was presented to the Temporary National Economic Committee, ordinary included whole life, endowment, and limited payment (20-year life, etc.) policies along with all the other variations inherent in these three forms. Group, industrial, and annuity were excluded.

First and foremost there will be the oversimplified statement—one which has been with us for a long time—that life insurance has outgrown its breeches. It sounds convincing enough to say that no small group of men guiding the destinies of great companies and using policyholders' money should be permitted to control totals of three or five billions of dollars. To prove this contention, critics of life insurance say that these men perpetuate themselves in office by effectively heading off democratic elections, that they hold a first mortgage on American industry through their handling of investment funds, that they hoodwink the public through use of archaic accounting systems and ponderous accounts, that they own a large segment of the population through their mortgages and foreclosures (all half-truths which may be drawn inferentially from the TNEC record).

But it all comes back to size. It has been solemnly pointed out before the TNEC that assets of the 26 largest life insurance companies grew 63% from 1929 through 1938 while the amount of insurance in force increased only 10%. This apparently was supposed to sound as though the companies had grown fat on policyholders' money (and how can mutual companies harm the policyholders by growing when the accretion belongs to the policyholders?).

#### *A Coincidence in Percentages*

The fact is, of course, as stated. Assets did grow 63%—from \$14,892,334,000 to \$24,390,135,000 (a gain of \$9,397,801,000). But as surely as a company has a constant or increasing amount of insurance in force, the reserves behind the policies must increase. In the nine years policyholders' reserves rose from \$12,581,578,000 to \$20,451,950,000, an increase, interestingly enough, of just a very small fraction less than 63%. And during the same period all assets held primarily for policyholders rose from \$14,328,828,000 to \$23,406,794,000—and once again there is the coincidence that the rise is almost exactly 63%!

Dozens of times during the TNEC hearings witnesses have been asked if they could see any good economic reason for the continued growth of the big companies, if any useful purpose is served by great size, or if they might be running up costs by their very ponderosity.

#### *See Some Advantage in Size*

Executives of large companies think that they perhaps have some slight advantages in investment research. They presume that their companies are better equipped to survive the losses which come in time of economic storm. They don't believe that life insurance companies have come to the point where they are competing in the sale of policies simply to go on increasing in size. They doubt that they have exhausted the market, that they have reached the saturation point in sale of insurance or that saturation accounts for the high lapse rate.

On the matter of the saturation point, it might be noted that the American public in 1937 paid \$3,761,000,000 in premiums on life insurance—and that it spent \$7,000,000,000 on tobacco, \$3,600,000,000 on alcoholic beverages, and \$3,400,000,000 on personal appearance. In addition to such comparisons, the companies use rules-of-thumb such as that which says a man should be able to meet the premiums on whole life in a face amount five times his

annual income. This would leave quite a little room for growth.

Whether size is an advantage or a disadvantage in the matter of giving the buyer low net cost on a policy involves tricky analysis. Nevertheless, it might be noted that the Metropolitan, largest of them all, compares very favorably with its competitors on net costs in the SEC's own tabulations as well as in those of independent analysts who carry on continuing studies of such things.

The large companies, hearing all this talk about concentration of economic power, are prone to think that some of the boys in Washington are envious. Many frankly voice the opinion that a small group in the Administration is working toward communistic government—and that this group wants control of the banks and the insurance companies and the stock exchanges, the railroads and the power companies and the communication systems to further that plan.

That, however, is not the immediate reason for the insurance companies balking at federal regulation. They now have to foot the bills for supervision by the 48 states, and they don't relish the idea of the regulation of an overall commission being superimposed upon the existing regulatory system. The agents are prone to think that, no matter what happens, they will get the worst of it, and they have been writing and wiring their congressmen to howl over rumors that the federal government will take over life insurance. (They got scared first when Senator Wagner proposed the sale of federal annuities in small amounts through the post offices.)

#### *Probable Federal Proposals*

Best bet on proposals for federal regulation still is that they will follow somewhat along the lines of existing bank legislation. An effort to get federal regulation over issuance of new charters, just as the Comptroller of the Currency charters new national banks, is in the cards. Federal control over management policy, financial operations, and accounting may be suggested under some organization resembling the Federal Deposit Insurance Corp. And the SEC may seek authority to intercede in bankruptcies just as it now can join in corporate reorganizations under certain circumstances.

But, no matter what else happens, it should be gratifying to the policyholder to realize that, from the start of the hearings until the finish, everybody involved has agreed wholeheartedly that life insurance has proved its soundness and its ability to weather the severest of financial strain during the last decade.

#### REPRINTS AVAILABLE

"LIFE INSURANCE — AND TNEC" is another of the series of BUSINESS WEEK's special reports to executives. Copies will be available in reprint form. Single copies will be mailed to BUSINESS WEEK readers upon request without charge. Additional copies will be billed at the rate of 10¢ apiece; quantity-order prices by arrangement. Requests for reprints whether for single copies or for larger quantities, should be addressed to Willard Chevalier, Publisher, BUSINESS WEEK, 330 West 42nd Street, New York, N. Y.

## BUSINESS ABROAD

FOREIGN TRADE • INTERNATIONAL AFFAIRS • FOREIGN INDUSTRY

### Fun Buys Munitions

Canada drives for more U. S. tourist dollars with which to purchase war materials.

OTTAWA (Business Week Bureau)—American dollars spent in Canadian souvenir shoppes, filling stations, hotels, and pubs are highly valuable for the purchase of war necessities from the United States. Hence the determination by the Ottawa and provincial governments to make a special drive for the tourist trade this year.

The province of Quebec is leading off. It is organizing business men, city officials, and prominent citizens generally into a special promotional body. Quebec also plans a tourist office in New York City. Extensive improvements are being made on roads between Montreal and the border. The Canadian Travel Bureau, Ottawa, is increasing its efforts.

Most effective selling point is that

American tourists get better than a 15% premium on their money in Canada. It is an offense against federal law for Canadians to chisel on the exchange rate when dealing with U. S. currency.

In this war Canada is the arsenal for the British Empire. Hence she must import huge volumes of raw materials, tools, machinery, parts, from the U. S. Extent of this expansion will depend on her increased acquisition of American dollars. Britain has taken Canada's entire metal production. Canada may be able to boost her sales of pulp, paper, and some other products to the U. S. but most promising is an expansion of the tourist trade.

### Aim at \$300,000,000 Trade

Tourists already are Canada's largest "export industry." Last year they spent \$275,000,000. This compares with \$242,000,000 in forest exports, \$220,000,000 in farm crops, \$182,000,000 in base metals. Efforts will be made to hike the tourist total to \$300,000,000 this year.

No substantial war orders were placed last week. Canadian Car and Foundry Co. is said to have received an educational shell order, similar to those on which National Steel Car Corp. is working. Foreign governments are inquiring about locomotives but buying depends on their ability to establish credits. War business wouldn't prevent filling of such contracts. Two companies in line for orders are Canadian Locomotive Co., Kingston, Ont., and Montreal Locomotive Works, subsidiary of American Locomotive Co.

Though bank clearings are off several points, the general tone of business remains confident. Canada Bell Telephone's gross revenues and installations are at the highest rate on record. It will spend approximately \$15,000,000 on new equipment in Ontario and Quebec province this year. Its truck fleet is to be expanded by 118 new motor vehicles.

### Oil Link-Up Nears Completion

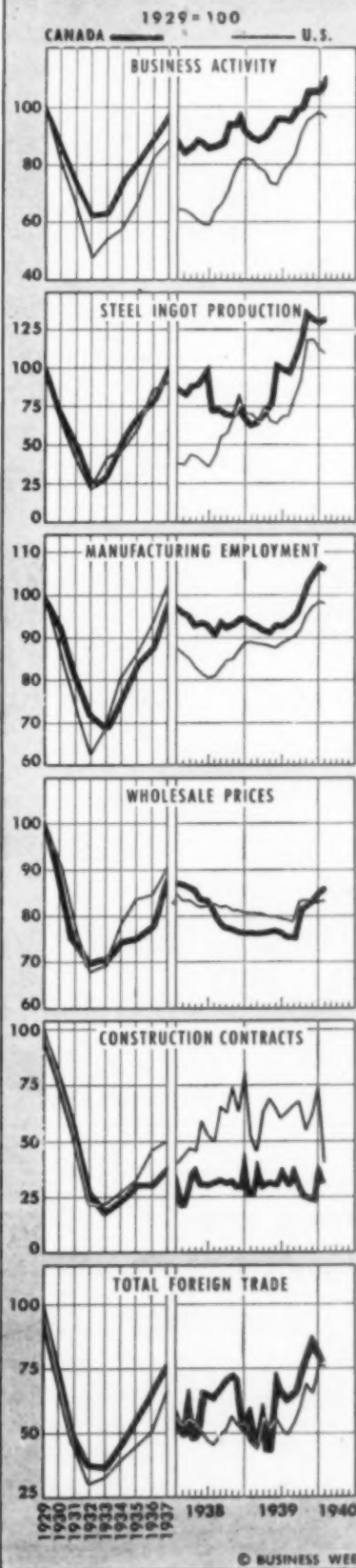
Imperial Oil, Ltd., is in the midst of a major expansion program. It has almost completed the \$1,000,000 pipe line project to increase the volume of crude oil from Illinois and other U. S. fields to its Sarnia, Ont., refinery. Cost and difficulties involved in getting crude from the company's South American fields led to the step. The line will increase the crude flow from 25,000 bbl. daily to 30,000 or 35,000. Imperial also plans new installations to produce high-octane gasolines for airplanes at its Calgary refinery. This backs up the Empire's pilot training project.

### The Netherlands in New York

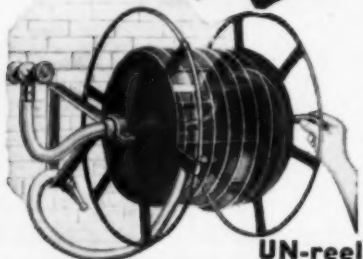


Fenton B. Turck, Jr., heads up Holland House of The Netherlands, which opens its home in Rockefeller Center, New York, on March 19—affording club, information, and other facilities for promoting trade and cultural relations between The Netherlands and the U. S. Opening ceremonies include a business luncheon, which will receive greetings via NBC short wave radio from the Dutch minister of foreign affairs, and, via long distance telephone, from the governor general of The Netherlands Indies.

## TREND OF BUSINESS CANADA AND U. S.



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During the past six months, some 740 newspapers have quoted Business Week—all together, at least 5,000 times.

## Japan's Economic Woes Pile Up

Trouble in Manchukuo and German trade with China emphasize weakness of Nippon's position, which is aggravated by U. S. control over vital supplies.

**TOKYO (Business Week Bureau)**—Washington dispatches announcing another loan (of \$20,000,000) to China from the U. S. Export-Import Bank intensifies the growing Japanese resentment against America. This feeling has been on the increase since the Roosevelt Administration allowed the Japanese-American trade pact to lapse on Jan. 26 (BW—Jan 20/40, p. 47).

Tokyo realizes that Washington can now, at a moment's notice and of its own volition, cut off shipments of scrap iron, cotton, gasoline and other supplies absolutely essential to the conquest of China. The new loan to China is an added aggravation. It comes at a time when Japan is in no condition to take on new troubles.

While persisting in its plan to establish a puppet government at Nanking, the Japanese are encountering great difficulties in the development of puppet Manchukuo. Under barter arrangements whereby Germany took soybeans in return for mining and mill equipment, Manchukuo made some progress. But German machinery is no longer available and American credits are lacking; hence Japan's own industry must add Manchukuoan demands to the racking strain of war. Since Japan lacks sufficient industrial equipment for her own needs, immediate prospects for Manchukuo are anything but brilliant.

### Japan Can't Spare Much

From the foregoing it becomes painfully evident that the new "commodity mobilization" recently announced by Manchukuo is more of a hope than a possibility. It calls for huge increases in coal, iron, electric production. The mechanics of this expansion are to come from Japan. Figures indicate small chance that Japan can furnish the equipment.

In 1938, an all-time record in Japanese industrial production, Japan was able to spare for Manchuria only 734 automobiles, 5,000 tons of steam boilers, 3,300 tons of machine tools, 450 tons of wood-working machinery.

Shortage of chemical fertilizers in Japan is causing profound unrest among the peasants, especially silk raisers. They fear the dearth will jeopardize the supply of mulberry leaves on which silk worms must feed. When war and credit difficulties cut off imports of ammonium sulphate, Japan's ambitious planners blandly listed a 40% increase in its own

production. Instead of attaining the figure set, the empire's output has dropped 20% below normal. In Manchukuo the decrease was from 155,270 tons in the first eight months of 1938 to 115,000 tons in the like period of 1939. The semi-official Manchuria Ammonium Sulphate Mfg. Co. set up last spring will shortly be forced to wind up its affairs. It cannot obtain necessary manufacturing equipment from Germany.

Coal is another case in point. Shortage of supplies in both Manchukuo and Japan has resulted in placing of orders in Canada and British India, and in negotiations with Colombia. The newspaper *Kokumin Shimbun* asks sarcastically "what became of the vast coal deposits in Manchukuo." It rakes the government for dealing with Chinese "noodle peddlers and barbers" instead of responsible Chinese business men and observers.

"What a mess! Surely it is premature to talk about developing the resources of China when those of Manchuria have not yet been developed."

### Manchukuo: a Reserved Market

However, Japan plans to tighten her hold on Manchukuo. A proposed new order would provide that Manchukuo must hereafter export all her products (mainly soybeans, coal, furs, hog bristles) to Japan and buy machines or manufactured goods in Japan only. Application of this rule would kill off the few remaining foreign business houses. Right now foreigners willing to route sales through Japan can still get orders.

Last month Manchukuo Electric Co. received an electric generator from an American manufacturer. Two others from the same source are expected in June. They are for the 70,000 kw. Sungari power plant. Three more generators for this plant have been ordered from Germany and two from Japan. Recent orders for sugar mills, machine tools, metallurgical and chemical plant equipment have been let in the U. S. without even asking for bids from Germany, the traditional supplier.

Italy, however, is an active competitor. She recently pulled down a \$375,000 order for machine tools, tractors, and farm implements.

Secret parleys for bettering commercial relations between Tokyo and Berlin have collapsed. Reason is Germany's refusal to withdraw her substantial aids to the Chungking government. The Hitler strategy considers trade with Japan less

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### British Ban Private Car Manufacturing

LONDON (Cable)—New regulations now prevent the manufacture of private motor cars for the domestic market by withholding steel for this purpose. Agreement of the Board of Trade, the Iron and Steel Federation, and the automobile industry provides that steel allocated to this field must be used only for export units and for commercial vehicles after the completion of present steel contracts. This is in line with the government policy of rationing raw materials on a priority basis with war needs governing the sequence.

Decline in motor vehicle licenses is less than expected. In December-January, 1938-1939 there were 3,100,000 autos licensed with receipts of £23,700,000. For the corresponding months of 1939-1940, there were 2,400,000 licensed cars with receipts of £22,800,000.

important for the moment than undermining British influence in China. German goods usually arrive under Scandinavian trade-marks though Belgian and Bulgarian firms are also in the trade.

Belgian concerns are shipping quantities of railway construction material and equipment for German manufacturers. German-owned and operated plants are springing up in Chiang Kai-shek's China. The Zeiss company is making field glasses, range finders, telephones, even watches near Kunming. Another German firm at Kunming makes optical goods, wireless sets, truck parts.

### Trucks Operate on Soybean Oil

American gasoline sales at Chungking and other interior cities will suffer from competition with a revolutionary German Diesel motor for trucks. It is said to use 88% soybean oil and only 12% gasoline. These engines were installed in 700 trucks operating in Yunnan and Szechuan. (Here is something for farm-chemurgic enthusiasts to investigate.)

In payment for exports Germany takes Chinese raw materials which come out through Russia, Indo-China, or Burma. To avoid the British blockade, the commodities are usually purchased by Italian firms. An invaluable aid is the new Moscow-Chungking airline, German-operated in Chinese territory.

Japan needs many of the items shipped into China. She could pay for them with raw materials from Manchukuo or Korea. Tokyo knows all about this traffic. It doesn't soothe Japanese irritation when German officials deny the importance of the trade with China and blame the lack of exports to Japan on war conditions.

## WAR BUSINESS

REGULATIONS • WAR ORDERS • TRADE CONDITIONS

### Bombers—en Masse

**Coordination of Canadian companies for plane orders may be followed in other industries.**

CANADIAN ASSOCIATED AIRCRAFT, LTD., one of the first Canadian organizations to get any important British defense equipment orders, represents an English effort to mass-produce a standardized type of airplane by sub-contracting parts work among a group of coordinated companies. This set-up may be copied in other industries, if other armaments orders from London materialize.

The company has received about \$40,000,000 in orders for Hampden bombers and the six cooperating concerns have raised \$1,000,000 among themselves, chiefly to build two final assembly plants. One is located at St. Hubert airport, Montreal, to service the member firms in that area: Canadian Vickers, Ltd., Canadian Car & Foundry Co., Ltd., and Fairchild Aircraft. The other is at Malton airport, Toronto, and near the airplane plants of National Steel Car Co., Fleet Aircraft Ltd., and Ottawa Car & Aircraft, Ltd.

History of the coordination goes back to 1937 when London asked the Canadian government to act as its agent in placing war orders in Canada. Ottawa

turned down the suggestion as prejudicial to its pre-war policy of no foreign commitments. In 1938, after a mission from the British Air Ministry had toured the Canadian manufacturing centers, representatives of Canadian industry went to London for conferences. Chief result was the formation of Canadian Associated, which served at the time as a channel through which the British government could deal with Canadian manufacturers.

### Supply Board Keeps Watch

The participating companies control the organization. Paul F. Sise, president of Bell Telephone Co. of Canada was appointed head. Even though the stage is being set for the mass production of bombers, the individual companies are also filling other Canadian and British orders, and the Canadian War Supply Board is able to exercise any control necessary to prevent the coordination from interfering with individual production schedules.

Biggest companies in the organization are Canadian Car and National Steel Car. Canadian Car, the leading Canadian manufacturer of railway equipment, did not enter the airplane industry until 1936. It bought the propeller division properties of J. A. Fay and Egan Co., Oakley, Ohio, in 1938, and also bought a plant near Montreal which it completely

### The Prides of the Seas—at Rest



The world's largest liner, the 85,000-ton Queen Elizabeth (at the bottom of the picture above), which made a daring dash across the Atlantic last week, now lies idle, but safe, in New

York, where it will probably stay for the remainder of the war, docked impressively alongside the Queen Mary and the Normandie. The ship at the top of the picture is the Mauretania.

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Now, while retaining the balanced *softness* and *stretch* of the famous Scott "SOFT-WEVE" Process, Scott engineers have developed the new "Soft-Tuff" ScotTissue Towel. The strength of this new-type tissue towel when saturated has been *multiplied!*

As *s-t-r-e-t-c-h-y*, and *softer than before*, the new "Soft-Tuff" ScotTissue Towel has far greater *drying ability*. Every one of its 154 square inches can be used *up to saturation*. That's why they go farther. In economy tests, the new "Soft-Tuff" ScotTissue Towel has materially lowered previous ScotTissue Towel consumption.

The "Soft-Tuff" ScotTissue Towel—a new Scott *Duralose Product*—is now available from over 300 Scott distributors and many representatives from coast to coast. They will be glad to demonstrate to you the increased satisfactions and savings of this amazing tissue towel. Call your local Scott distributor today, or write direct for samples. Scott Paper Company, Chester, Pa.

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## ScotTissue Towels

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**LINT** Soft as it is, the new "Soft-Tuff" ScotTissue Towel is designed to practically eliminate lint being left on skin or clothes. Men, and women, too, find this luxurious tissue towel gentle and pleasant to use on hands and face. One does a complete drying job.

**TEAR** Try this convincing "Rub Test." Soak both an old-type ScotTissue Towel and a new "Soft-Tuff" ScotTissue Towel in water. Wrap one around each hand and rub together. See how sturdy the new towel is... how it resists tearing when saturated. Insist on these money-saving "Soft-Tuff" ScotTissue Towels.

**WASTE** One new "Soft-Tuff" ScotTissue Towel can dry comfortably, thoroughly. Soft, stretchy, absorbent—this amazing towel can be used *up to saturation*. That's why it is proving so economical under all service conditions. Sanitary, convenient in dustproof cabinets.





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overhauled and modernized for aircraft production. It has another airplane plant at Fort William, Ont., and is currently producing Hawker-Hurricane pursuit planes for the Canadian government.

National Steel Car Corp. entered the airplane field in 1937 when it got manufacturing rights to Westland-Lysander planes. The company completed a \$600,000 aircraft plant at Malton in 1938 and doubled the floor space early in 1939—in order to take care of orders placed both by the British Air Ministry and the Canadian National Defense Department.

Canadian Vickers maintains a dry dock and ship-building plant at Montreal and was granted a \$105,000 per year governmental subsidy in 1914 that will run until 1949. Besides participating in the bomber orders, the company is specializing in building Stranraer flying boats for the Canadian government.

Fairchild Aircraft, Ltd., is controlled by Fairchild Engine & Airplane Corp., an American company, and is working at capacity on Bristol-Blenheim bombers for the Dominion government. To speed up production, Fairchild re-modeled part of an old plant at Walmsley and planned an addition of around 40,000 sq. ft. to its factory at Longueuil last June.

#### Companies Expand Facilities

Last January, Fleet Aircraft received a Canadian government order for 404 training planes and had already been working on a backlog of about 82,500,000, including earlier orders for 100 training planes. However, since the company has completed an 80 by 210 ft. addition to its plant at Fort Erie, Ont., and has not been taxed to capacity, it is believed that Fleet will experience no difficulty in filling the big order.

Ottawa Car and Aircraft, which claims to be the oldest plane manufacturer in Canada, having had an order for Avro Avians in 1926, announced plans last December to build a plane assembly plant at Ottawa airport field, on ground it had bought a couple of months earlier.

Canadian companies not included in the mass production plan because of the limitations of the original order for bombers are also busy on individual aircraft contracts. These companies include: DeHavilland Aircraft of Canada, Ltd.; Noorduy Aviation, Montreal; Boeing Aircraft, Vancouver; and MacDonald Bros., Winnipeg.

#### Reich Pinched Twice

**While Allies are breaking up coal trade with Italy, they win trade victory in Rumania.**

BERLIN (Cable) — Settlement of the Italo-British dispute over shipments of German coal via Rotterdam raises the difficult problem of overland shipments to Italy. Italian ships captured by Eng-

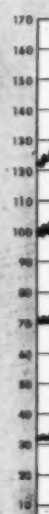
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land were released but further ocean transport has been barred. The German press claims that coal train after coal train is now rolling over the Brenner pass, but neutral experts point out the obstacles to shipping 7,000,000 tons of coal annually by land at a time when the freight car shortage is already acute and the lines leading to Italy are already overloaded.

Allied diplomacy on another front also pinched German war strategy. New Rumanian foreign trade regulations this week legalize the depreciation of the lei in terms of sterling and French francs. Minimum prices on exports were established, too. These moves have aroused the Nazis' ire, Berlin claiming that Rumania has gone overboard to the Allies by improving their purchasing position.

### German Securities Advance

The domestic situation in Germany is characterized by an intensification of industrial output because of more favorable weather. Peacetime production is being curtailed even further and an increasing number of textile and other mills are being closed to release the workers for "more essential" jobs.

Advance on the stock market has assumed the proportions of a regular boom since December and, as bonds are also participating in the rise, fears of inflation cannot be credited as the main motive for the upward movement. But while prices of both shares and bonds continue to advance, security markets are suffering because of the shortage of investment material. The Reich treasury may soon be tempted to take advantage of the favorable financial circumstances and issue the first major war loan possible at lower interest rates.

## MONEY AND THE MARKETS

FINANCE • SECURITIES • COMMODITIES

### Markets Sift Peace Prospects

**Russo-Finnish treaty diverts attention from British effort to get more foreign exchange through higher prices for tin and rubber. Pound drops sharply.**

MARKETS THIS WEEK received news of a Russo-Finnish peace with relative equanimity, notwithstanding the fact that it might have been regarded as a minor "peace scare." Bonds of Finland sold close to 70¢ on the dollar compared to recent lows around 32¢; dollar bonds of Denmark and Norway were up 15 to 20 points, showing gains of better than 30%.

Moreover, inasmuch as traders could only guess what this peace presages in European affairs, they were looking for "peace" stocks. They talked more and more about Eastman Kodak, International Nickel, and International Telephone & Telegraph, all of which have extensive interests in Europe, and about the motion picture shares which will benefit if European markets are gained.

All this diverted attention from a British move of far-reaching potentialities. England moved to compel the Americas (excepting, significantly, Argentina) the Netherlands, Belgium, and Switzerland, and their dependencies, to pay slightly higher prices for rubber, tin, jute, furs, and Scotch whisky. In effect, England says these countries must buy the items

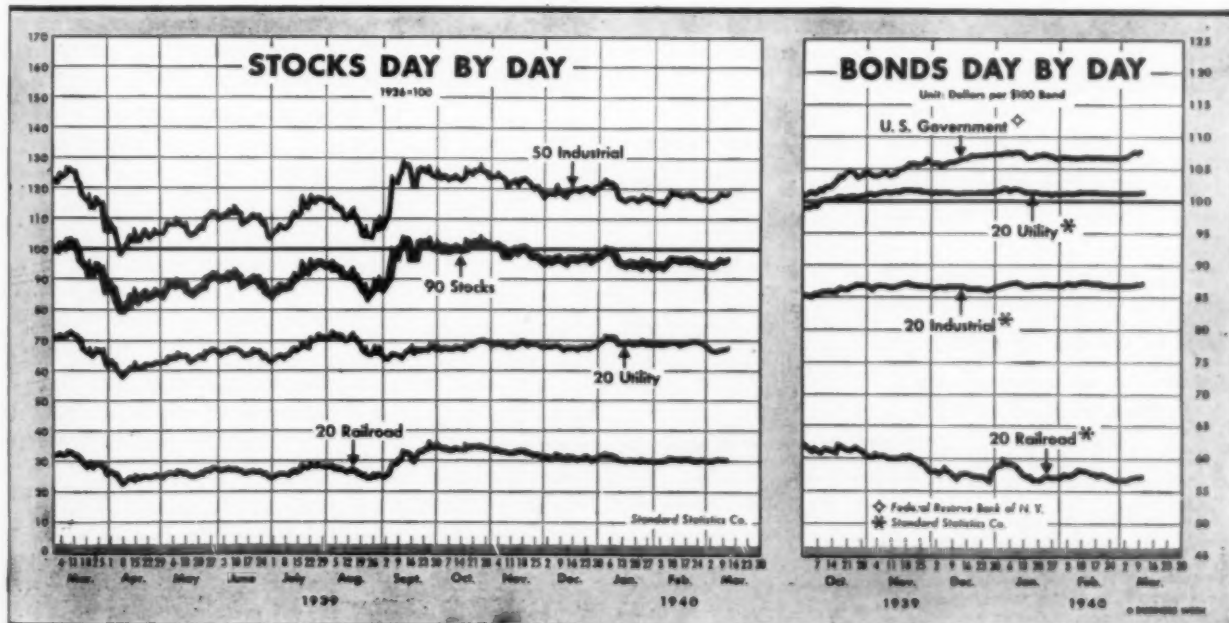
mentioned on terms equivalent to the "official" rate for the pound which is \$4.02½ @ \$4.03½. Heretofore, the buyer could use "free" pounds which have been available around \$3.90.

Exemption of Argentina is important to American exporters. It is equivalent to John Bull remarking: "I'll let Argentina have the advantage of the cheap pound so that I may retain such trade and good will as I have in the Argentine."

### Helping British Wage War

Meanwhile, England is further "blocking" the pound and telling raw-material buyers that they will have to give Britain a little extra foreign exchange to aid in the conduct of the war. For this, Britain is in a strategic position. It controls in the neighborhood of half the world's rubber. Due to shipping difficulties, tin from the Netherlands East Indies is going to Singapore for refining instead of to the mother country—so Britain now has a virtual monopoly on all but Bolivian tin. India produces almost all the world's jute from which burlap bagging is made.

England may not get fat off this re-



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striction, but it had the effect of making the "free" pound worth a good deal less on the world markets. Sterling in New York was as low as \$3.70½ on Wednesday, a drop of nearly 25¢ in less than a week. And note this: If England now comes to need foreign exchange desperately, it can authorize certain exports of Empire products with payment in "free" pounds, which would give the buyer a pretty handsome discount.

## SEC Challenged

**Bankers appear ready to take competitive bidding fracas to court for decision.**

ARE THE BIG public utility systems "affiliated" with Wall Street's investment banking houses? If one of these Wall Street firms arranges to underwrite an issue of public utility securities without public bidding, can the operation justly be described by the Securities and Exchange Commission as failure to deal at arms' length? If SEC so describes it, can the ruling be made to stick?

These questions, basic to the traditional operation of the market for new securities, have occupied much attention in Wall Street and Washington over the last several months. Now it appears they are headed for a definite answer.

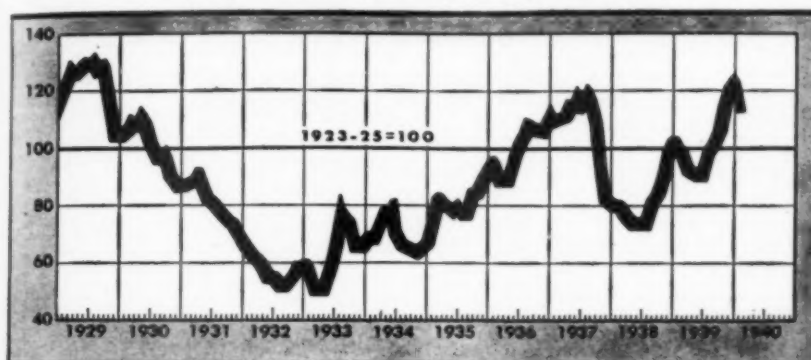
Specific case in point is that of Morgan Stanley & Co. and the Dayton Power & Light Co. The banking house recently floated \$25,000,000 of bonds for the power company. It waived its commissions in the transaction until the SEC determined whether or not there had been arms'-length dealings in the arrangement of the financing. The commission then asked Morgan-Stanley to defend its position, briefs have been filed, and oral arguments on the question of arms'-length bargaining will be heard before the SEC on Apr. 5.

#### Why Is Issue Raised?

The disagreement arises from the fact that Dayton P & L is owned by Columbia Gas & Electric; Columbia Gas is 19.6% owned by United Corp. (although United Corp. has announced plans to reduce the holding to less than 10%); United Corp. was set up in 1929 by the Morgan-Bonbright interests to hold securities in an important group of Eastern utilities; Morgan Stanley & Co. is the investment banking firm organized when J. P. Morgan & Co. decided to remain in commercial banking and was, as a result, compelled to drop out of underwriting.

Considering the fact that United Corp. intends to abandon the role of the utility holding company for that of an investment company, and considering further the somewhat vague ties between Morgan-Stanley and Dayton Power in any event, Wall Street wonders why the question of arms'-length dealings comes

## Monthly Index Off 10 Points in February



Business Week's Monthly Index of Business Activity fell to 112.8 in February, a decline of 10.1 points from January, and 12.7 points from

the December recovery high of 125.5. In spite of the sharp decline recorded, the figure was the highest for any February since 1929.

up in this case. And, in view of the fact that it probably will be carried into the courts for decision, the financial community awaits with keen interest the developments of the next few months.

Meanwhile, there is more and more concern among investment bankers over the obstacles which recently have been thrown in the way of public utility financing by the SEC (the commission not only serves as watch dog of the securities markets, but also is administrator of the Public Utilities Act of 1935, so that it has wide latitude). In addition to the fuss over arms-length bargaining and competitive bidding, there have been several other impediments to raising money for expansion or for refunding bonds already outstanding.

One sizable deal was blocked by the SEC when sale of common stock instead of bonds was demanded. Another was delayed because of the contention that the parent company should put up some cash for the subsidiary which desired to sell bonds to the public. Still another was postponed after an argument over depreciation policy.

Bond men and utility executives argue that these and other actions in Washington are blocking the raising of money for utility expansion at the very time when Administration officials are urging the companies to build for national defense.

## FINANCIAL ANGLES

## Two Mergers Loom

TWO MERGERS, both involving prominent New York Stock Exchange firms, have been in the wind the last few days. One would bring together G. M.-P. Murphy & Co. and Callaway, Fish & Co., both with main offices in New York, and the other involves Hayden, Stone & Co., of New York and Glore, Forgan & Co. of

Chicago and New York. Senior partners, Grayson M.-P. Murphy and Charles Hayden, both leading lights in Wall Street for many years, died more than two years ago, which probably accounts in some measure for the desire of their firms to merge. Moreover, the Murphy firm retrenched during the depression to the extent of cutting its branch offices from 12 to 4.

The merged firms, if both consolidations come off, would occupy important places in both stock exchange commission business and in investment banking. Presumably the consolidations would be beneficial, too, if at a later date Big Board houses are obliged to segregate the capital used in the brokerage and underwriting phases of the business.

## Record Soybean Exports

ONE FARM PRODUCT to which the war has given a decided lift is that versatile vegetable, the soybean. Early it became apparent that exports would rise (BW—Nov. 11 '39, p. 17); now the facts bear out the predictions. The United States shipped 10,200,000 bu. from October through January, a four-fold increase over the same period a year earlier.

Manchuria usually is the big exporter to Europe, but war and a short crop largely has eliminated this source. Germany, a big importer, is theoretically cut off. But the Netherlands, which rarely buys many beans from the United States, took 6,245,520 bu. in the four months. All of which explains continued firmness in domestic prices.

## Brazil to Pay on Bonds

BRAZIL has finally taken a long-awaited step. The government announces that, beginning Apr. 1, it will resume interest payments at scarcely one-third the coupon rate for four years on defaulted foreign obligations. Of \$1,000,000,000 in bonds affected, some \$350,000,000 are dollar obligations.

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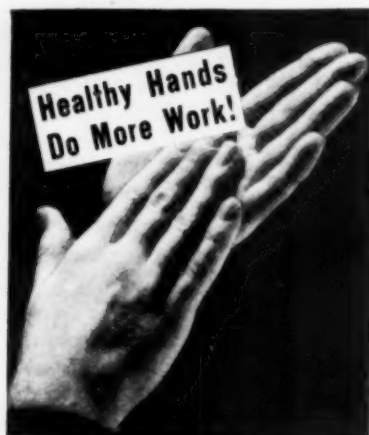


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## THE TRADING POST

### Industrial Post-Graduates

THIS IS THE TIME of year when a lot of young hopefuls are beginning to chew their nails as they brood over final examinations and the other hurdles that lie between them and their diplomas next June. Right now graduation looms large as their immediate objective.

But, as we all learn in the course of our progress through this vale of tears, they're going to find that the achievement of one objective, the solution of one problem, simply leaves them with new and tougher problems to replace the old and with new and even more vital objectives yet to be sought.

Come commencement and then it's a matter of getting a job—at least for most of them. And according to the common talk, that's likely to be quite a chore. As a matter of fact, if we were to believe our Grade A pessimists, no one today will hire either the youngsters who are just out of school or the oldsters over forty. Which, if true, would very much curtail the working life of the average American. So we can be grateful that it isn't true.

I was reminded of all this a few weeks ago, when Walter Geist, vice-president of Allis-Chalmers, announced the departure of his "talent scouts" on their annual trip to size up the year's vintage of engineering graduates. Geist has been at that job for a long time: his company has been going out after the boys ever since 1903. So he speaks with the voice of authority. And this year, he says, offers the brightest prospects since 1929 for the young engineers to grab options on meal-tickets before they are talked to death at commencement and then shoved out on their own.

In his quest he covers 20 colleges. He reports that this year's industrial enrollment of the graduating classes is running as much as 300% ahead of last year at the same time. This year more than 50 of the large companies are looking 'em over and signing 'em up.

I remember when this effort to seek out and sign up the young graduates for a period of training was sneered at by some as just another dodge of the "predatory employers" to wangle a lot of cheap help. But that was a long time ago. The professional "belittlers" of our time have a new set of strings to harp on. And, anyway, the fine record that has been made both by the industries and by the graduates of their training courses are adequate answer to the ancient gibes of the industry-baiters.

Walter Geist says that the percentage of boys dropped from the payroll after they are employed for the training program is negligible: in 35 years his com-

pany has found it necessary to release less than 1% of the graduate students after signing them up for the course. Naturally. For every company that goes in for this sort of thing makes a substantial investment in its boys and it is to be expected that the boys will get every chance to make good—in the company's interest as well as in their own.

The chances are that this trend toward organized post-graduate training in operating industrial plants will continue in increasing measure. Industrial management during the period just ahead is going to call for more highly-trained men—trained not alone in the sciences and techniques of their particular professions but also in the broad human and economic relationships that have come to be of dominant importance, both inside and outside the plant.

No college can hope to give an inexperienced boy the understanding and the sureness of touch that he needs to cope with the every-day problems of modern management. Neither can the casual and necessarily spotty information about the business that is picked up in the course of regular employment give him the hill-top view of its related operations that is so essential to the industrial manager of today—whether he be a general executive or a department head.

The situation indicates rather explicitly a planned, systematic and comprehensive training of a year or two, right in the plant and under working conditions, in order to supplement the technical education of the classroom and laboratory. Industry, in short, must take a hand in the basic training of its young men if it expects them to measure up.

Eloquent of the sound basic training given in these courses is the evidence that the men do not find their opportunities confined to the particular companies from which they received it. The Allis-Chalmers course, for example, numbers among its alumni industrial executives such as F. M. Zeder and Carl Breer, now vice-chairman and research head of Chrysler Corp.; Leigh Willard, president of Semet-Solvay; H. L. Watson, vice-president, DeLaval Steam Turbine; H. A. Reutschi, general manager, Mathieson Alkali (who now has a son taking the course); Lawrence Meharg, chief engineer, Hazel-Atlas Glass; Ernest Hawkins and Wesley F. Malloch, with the du Pont Co. and many others.

They all went through the A-C mill and later found the spots where they made their training count most for themselves. Probably other companies also can call the roll of their training-course alumni who left the campus and succeeded in making names for themselves elsewhere.

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## A Touch of Erewhon

SAMUEL BUTLER is most famous for his novel "The Way of All Flesh." But to lovers of social satire, "Erewhon" was his best book. In it, the rebellious Englishman did away with the machine. His mind-made creatures, the Erewhonians, lived a happy life without alarm clocks, without steam engines, without mechanical devices. And now along comes Sen. O'Mahoney, chairman of the Temporary National Economic Committee, with a bill that has a touch of Butler's "Land of Nowhere." It is designed "to reduce unemployment"—and, incidentally, to set the stage for the coming TNEC hearings on technological unemployment.

Sen. O'Mahoney uses as a basis for his bill the work of Karl Karsten, a statistician. In an article in the current issue of the *Electrical Workers' Journal*, Karsten goes into the proposal which would (1) levy a tax on companies whose payrolls represent a low proportion of total costs and (2) pay a bounty to companies whose payrolls were high relative to total output. But just how this program of taxation would reduce unemployment is left in a nebulous state.

THE KARSTEN FORMULA strips business operations down to two main concepts: (1) the price markup, on which the tax is based; (2) claimable payrolls, on which the bounty, or credit, is based. The markup is obtained by subtracting purchases of materials and supplies and claimable payrolls (all wages and salaries up to, but not above, \$3,000 a year) from gross income. Here's how:

Assume a company has a gross income of \$100,000; assume its purchases of materials and supplies come to \$40,000 and its claimable payrolls to \$50,000; assume also the markup tax is 2% and the payroll credit is 1% (as Karsten does). Then the tax on the \$10,000 markup (\$100,000 minus \$90,000) is \$200; the 1% credit on the \$50,000 claimable payroll is \$500, so the taxpayer gets a net credit of \$300. If instead of a \$50,000 claimable payroll, the payroll is only \$10,000 and materials and supplies amount to \$80,000, then the markup tax remains the same at \$200 (2% on \$10,000), but the payroll credit (1% on \$10,000) drops to \$100, and the net tax is \$100.

Sen. O'Mahoney does not propose any specific rates for either the markup tax or the payroll credit. He leaves blanks for Congress to fill in, and in the meantime intends to ask the House Ways & Means Committee to hold early hearings to direct "public attention . . . toward the adoption of a permanent cure of an economic ailment which everybody recognizes."

But it is difficult to figure just how the scheme will help to reduce unemployment. The tax is insufficient to cause any employer to scrap machines for hand labor. Presumably the intention is to increase general consumption by having employers pass on their labor savings to consumers in the form of reduced prices. Instead, the tax would simply discourage new installations of machines.

Suppose a company installs a machine and saves \$10,000 in labor costs; suppose it passes all of its savings on to consumers. Then, here is what happens: (1) there is no reduction in its markup tax, because its aggregate markup is unchanged; (2) but it does suffer a reduction of \$100 (1% on \$10,000) in its payroll credit. So the company is \$100 worse off than it would have been without its new machine—obviously, no incentive to new capital commitments.

SEN. O'MAHONEY seeks to solve a timeless problem. J. B. Say, the foremost French economist of his era (1767-1832), had surprising insight into technology. Say wanted to restrict the use of new machines to districts "where labor is scarce" or until provision had been made "for the employment of the idle." He was the forerunner, in a sense, of the National Resources Committee's report on technological trends in 1937, which said that "the dislocations occasioned by technological progress will continue to present serious problems of industrial, economic, and social readjustment."

In that same report, the National Resources Committee observed that in order for unemployment to decline to what it was in 1929, "goods and services produced would have to reach a point 20% higher than that in 1929." Since that report, more than a million persons have joined the roster of employables.

Thus, there is no question of the gravity of the problem. But there is a grave question whether Sen. O'Mahoney has not an Erewhonian solution.

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